

BEFORE THE
ILLINOIS COMMERCE COMMISSION

SOUTH BELOIT WATER, GAS AND)	DOCKET NO.
ELECTRIC COMPANY)	03-0676
)	
Proposed general increase in)	
natural gas rates.)	
(Tariffs filed on October 10, 2003)	
-----)	CONSOLIDATED
)	
SOUTH BELOIT WATER, GAS AND)	DOCKET NO.
ELECTRIC COMPANY)	03-0677
)	
Proposed general increase in)	
water rates.)	
(Tariffs filed on October 15, 2003))	

Springfield, Illinois
May 19, 2004

Met, pursuant to notice, at 10:00 A.M.

BEFORE:

MR. LARRY JONES, Administrative Law Judge

APPEARANCES:

MS. JENNIFER MOORE
200 First Street, SE
Cedar Rapids, Iowa 52406

(Appearing on behalf of South Beloit Water,
Gas and Electric Company)

SULLIVAN REPORTING COMPANY, by
Carla J. Boehl, Reporter, Ln. #084-002710
and
Laurel A. Patkes, Reporter

1 APPEARANCES: (Cont'd)

2 MR. JOHN FEELEY
3 160 North LaSalle Street, Suite C-800
4 Chicago, Illinois 60601

5 (Appearing on behalf of Staff of the
6 Illinois Commerce Commission)

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I N D E X

<u>WITNESSES</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>
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MARTIN SEITZ

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By Mr. Feeley

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ENRIQUE BACALAO

By Ms. Moore

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By Mr. Feeley

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DOUGLAS K. CARLSON

By Ms. Moore

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By Mr. Feeley

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By Judge Jones

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SONYA M. KESSINGER

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BONITA A. PEARCE

By Mr. Feeley

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CHERI L. HARDEN

By Mr. Feeley

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WILLIAM D. MARR

By Mr. Feeley

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JANIS FREETLY

By Mr. Feeley

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THOMAS Q. SMITH

By Mr. Feeley

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I N D E X

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PROCEEDINGS

JUDGE JONES: On the record. Good morning. I call for hearing the following two docketed matters: They are consolidated, 03-0676 South Beloit Water, Gas and Electric Company, proposed general increase in natural gas rates. That's 03-0676. South Beloit Water, Gas and Electric Company, proposed general increase in water rates, that being 03-0677.

At this time may we have the appearances orally for the record, first on behalf of South Beloit Water, Gas and Electric Company?

MS. MOORE: Appearing on behalf of South Beloit Water, Gas and Electric Company, Jennifer Moore, 200 First Street, Southeast, Cedar Rapids, Iowa 52401, business phone number (319) 786-4219.

JUDGE JONES: And you are appearing in what capacity?

MS. MOORE: I am appearing on behalf of the company as an attorney, and I am licensed in the State of Illinois.

JUDGE JONES: Thank you. Did you give your phone number?

1 MS. MOORE: Yes, I did.

2 JUDGE JONES: Commission staff?

3 MR. FEELEY: Representing Staff of the Illinois
4 Commerce Commission, John C. Feeley, Office of
5 General Counsel, Illinois Commerce Commission, the
6 address is 160 North LaSalle Street, Suite C-800,
7 Chicago, Illinois 60601, phone number is (312)
8 793-2877.

9 JUDGE JONES: Thank you. Are there any other
10 appearances? Let the record show there are not.

11 It is my understanding that the two parties
12 have worked out an order of witnesses for the
13 hearing today. In addition, it appears that some of
14 the witnesses are ones for whom there is no cross
15 examination, and the plan is for their testimony to
16 be offered by affidavit, is that correct?

17 MR. FEELEY: That is correct. The two
18 witnesses for Staff would be Ms. Jones and
19 Mr. Lounsberry.

20 MS. MOORE: And for the Company they would be
21 company witness Lawrence J. White.

22 JUDGE JONES: All right. Before we proceed

1 with the examination of the witnesses, are there any
2 preliminary matters the parties want to address at
3 this time?

4 MS. MOORE: None from the Company.

5 MR. FEELEY: No.

6 JUDGE JONES: I think we are ready to proceed
7 then. Is the Company ready to call its first
8 witness?

9 MS. MOORE: Yes, the Company calls Martin
10 Seitz.

11 JUDGE JONES: Sir, come up, one position or the
12 other. Please raise your right hand to be sworn.

13 (Whereupon the Witness
14 was duly sworn by Judge
15 Jones.)

16 MARTIN SEITZ
17 called as a Witness on behalf of South Beloit Water,
18 Gas and Electric Company, having been first duly
19 sworn, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MS. MOORE:

22 Q. Good morning. Would you please state your name

1 and your business address.

2 A. Yes, my name is Martin W. Seitz, the last name
3 is spelled S-E-I-T-Z. My business address is 4902
4 North Biltmore Lane, Post Office Box 77007 in
5 Madison, Wisconsin. The zipcode for the post office
6 box is 53707-1007.

7 Q. And by whom are you employed and in what
8 capacity?

9 A. I am employed by Alliant Energy Corporate
10 Services, Inc., and I am the Manager of Financial
11 Planning and Analysis for the East Section of
12 Alliant Energy Corporation.

13 Q. Did you submit prefiled testimony in this
14 proceeding?

15 A. Yes, I did.

16 Q. And is that prefiled direct testimony that has
17 been marked as Exhibit MWS-1 Gas consisting of 17
18 pages and Schedules A through D, is that your
19 prefiled direct testimony for the gas case?

20 A. That is correct.

21 Q. And you also submitted prefiled direct
22 testimony that the Company has marked for

1 identification MWS-1 which would be your water
2 direct testimony consisting of 24 pages and
3 Schedules A-3 through D-6?

4 A. That is also correct.

5 Q. Do you have any changes to this testimony?

6 A. No, I do not.

7 Q. And if I asked you the same questions that are
8 in the testimony, would your answers be the same
9 today?

10 A. Yes.

11 Q. Did you also file rebuttal testimony which has
12 been identified as MWS-2 consisting of ten pages?

13 A. Yes, I did.

14 Q. And if I were to ask you -- well, do you have
15 any changes to this?

16 A. No, I do not.

17 Q. And if I were to ask you the same questions in
18 that testimony, would your answers be the same?

19 A. Yes, they would.

20 Q. Did you also file prefiled surrebuttal
21 testimony consisting of nine pages and marked as
22 Company Exhibit MWS-3?

1 A. Yes, I did.

2 Q. And do you have any changes to that testimony?

3 A. No, I do not.

4 Q. If I were to ask you the same questions
5 contained in that testimony, would your answers be
6 the same?

7 A. Yes, they would.

8 MS. MOORE: Your Honor, I move to offer these
9 four exhibits into evidence subject to cross
10 examination and would tender Mr. Seitz for cross
11 examination at this time.

12 JUDGE JONES: Thank you. Any objection to
13 that?

14 MR. FEELEY: Staff has no objection.

15 JUDGE JONES: Let the record show that those
16 exhibits sponsored by Mr. Seitz are admitted.

17 (Whereupon Company
18 Exhibits MWS-1(Gas),
19 MWS-1(Water), MWS-2 and
20 MWS-3 were admitted
21 into evidence.)

22 JUDGE JONES: Just for clarification before we

1 proceed with cross, Mr. Seitz is offering testimony
2 that was filed with the initial filing in both
3 docket numbers?

4 MS. MOORE: Correct.

5 JUDGE JONES: So the direct would be separate
6 testimonies for each of those. So what we will do
7 with that is we will add the gas suffix to the
8 identification of the gas filing and the water
9 suffix to the identification number on the water
10 filing because I think they use the same
11 identification number. That should solve that
12 question.

13 Now, the direct filing in -0676 had some
14 schedules attached to that, is that correct?

15 MS. MOORE: Correct.

16 JUDGE JONES: And those are being offered as
17 part of that exhibit filing?

18 MS. MOORE: Correct. I think they have been
19 marked as exhibit -- marked as Schedules A through
20 D.

21 JUDGE JONES: And those are to be treated as
22 part of the testimony filing?

1 MS. MOORE: Testimony, correct.

2 JUDGE JONES: So they would be part of Company
3 Exhibit MWS-1 gas or water as the case may be?

4 MS. MOORE: Correct.

5 JUDGE JONES: Are there any attachments to the
6 rebuttal filing?

7 MS. MOORE: No, Your Honor, there are not, I do
8 not believe.

9 JUDGE JONES: Is that also the case with
10 surrebuttal testimony?

11 MS. MOORE: Yeah, I think the rebuttal and
12 surrebuttal testimony do not have any attached
13 schedules.

14 JUDGE JONES: Thank you. All right. With
15 those clarifications the testimonies sponsored by
16 Mr. Seitz are admitted into the record as filed
17 electronically on the various dates as reflected in
18 the e-Docket records.

19 I believe Staff has some questions for
20 Mr. Seitz, is that still the case?

21 MR. FEELEY: Yes, we do.

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CROSS EXAMINATION

BY MR. FEELEY:

Q. Good morning, Mr. Seitz. My name is John Feeley and I represent the Staff.

A. Good morning.

Q. Mr. Seitz, are you familiar with Ms. Osterholz's Exhibit JSO-6? If I could approach the witness, I will --

JUDGE JONES: What do you have there?

MR. FEELEY: I have one piece to that I want to use as a cross exhibit.

JUDGE JONES: What is the reference?

MR. FEELEY: JSO-6 page 1 of 1. Here you go.

JUDGE JONES: Thank you.

MR. FEELEY:

Q. Are you familiar with that document?

A. Yes.

Q. Do you agree with me that JSO-6 indicates that a total of 14 South Beloit customers participated in the savings sharing program from 1998 through 2003 for gas?

1 A. Other than we call it a shared savings program
2 as opposed to a, I believe the title you used, yes,
3 I do agree with that.

4 Q. So the number of customers participating in gas
5 only and shared savings was 14, correct?

6 A. Yes.

7 Q. I will provide you with another document. I
8 provided you with a copy of SMK-2, Schedule A-1,
9 page 1 of 1. I believe this came from
10 Ms. Kessinger's testimony. Are you familiar with
11 this document?

12 A. Yes.

13 Q. Can I direct your attention to line 13? Do you
14 agree with me that the total number of gas customers
15 for South Beloit as shown on SMK-2, line 13, is
16 6,857?

17 A. Yes, I agree with that.

18 Q. If I could direct your attention to your
19 surrebuttal testimony, page 7, and in particular
20 starting at line 7?

21 A. Uh-huh.

22 Q. Do you have that in front of you?

1 A. Yes.

2 Q. In your testimony you state that the shared
3 savings program costs reflect a portion of the
4 carrying costs and investments made by customers
5 that reduce the Company's demand costs associated
6 with furnishing natural gas to customers, is that
7 your testimony?

8 A. Yes.

9 Q. And is it correct that your statement
10 "investments made by customers" refers to costs
11 incurred by 6,857 total customers for plant or
12 property owned by the 14 participants in the plan?

13 A. I don't believe so. I believe the investments
14 relate to the 14 customers.

15 Q. The investments are owned by 14 customers,
16 correct?

17 A. Right.

18 Q. However, that cost is going to be spread out
19 among 6,857 customers, correct?

20 A. Not the investment costs. The carrying costs
21 representing the interest buy down is what is being
22 requested to be included in revenue requirements and

1 shared by the 6,857 customers.

2 Q. So the --

3 A. The actual.

4 Q. I am sorry?

5 A. The actual investment cost that South Beloit
6 has financed for the 14 customers is paid back by
7 those customers, and it is paid back in part by the
8 energy savings they receive from those investments.
9 At the end of that contract that's their property
10 and equipment.

11 Q. Okay. But the carrying costs are recovered
12 from 6,857 total customers?

13 A. A portion of the carrying costs.

14 Q. Okay. And those -- a portion of the total
15 carrying costs relate to investments that are owned
16 by a total of 14 customers, 14 participants in the
17 plan?

18 A. Yes.

19 Q. And then is it correct that the shared savings
20 carrying costs are incurred for the financing
21 equipment that allows participants in the program to
22 reduce their energy consumption and thus the cost

1 that they pay for energy?

2 A. It is a portion of the financing costs. It is
3 not all of the financing costs. The actual customer
4 that has the investment pays a portion of the
5 financing costs. To make this program affordable
6 and attractive to those customers, we have bought
7 down at a present value rate the remaining carrying
8 costs such as the total carrying costs would equal
9 the pre-tax weighted average cost of capital for the
10 utilities.

11 Q. Okay. Direct you to page 8 of your surrebuttal
12 testimony, in particular at lines 1 through 4.

13 A. Uh-huh.

14 Q. You state the following: "The Public Utilities
15 Act does not allow the Commission to order refunds
16 or surcharges without conducting an investigation
17 with hearings in the context of a rate case." Do
18 you see that in your testimony?

19 A. Yes.

20 Q. Is it your position that the Public Utilities
21 Act allows refunds of or surcharges to previously
22 billed tariffed rates if the hearing is first

1 conducted?

2 A. Would you restate the question, repeat the
3 question?

4 Q. Okay. Sure. Is it your position that the
5 Public Utilities Act allows refunds of or surcharges
6 to previously billed tariff rates if a hearing is
7 first conducted?

8 A. I don't believe the previously billed. I don't
9 believe that would be the case.

10 Q. So the answer, yes or no to the question?

11 A. No.

12 Q. That is not your position?

13 A. That is not my belief.

14 Q. Also on, I am sorry, your rebuttal testimony,
15 page 8, in particular lines 6 through 7, you state
16 the following: "As such deferred costs are
17 recovered in rates, such amount recovered in rates
18 would be removed from the deferral and recorded as
19 an expense"?

20 A. Yes.

21 Q. Do you see that in your testimony?

22 A. Yes, I do.

1 Q. Are the deferred costs to which you refer to
2 the 2002 shared savings costs?

3 A. This was explaining the accounting method that
4 would be used. It is more of an example as opposed
5 to a specific situation. And in terms of the costs
6 that would be removed from a deferral, regulatory
7 asset or whatever you want to call it type of an
8 account and recorded as an expense on the income
9 statement would be those amounts allowed in revenue
10 requirements through a rate order process.
11 Therefore, you would have a matching of revenue and
12 expense. The amounts that would be going into such
13 account would be the buy down of the interest costs
14 related to shared savings projects.

15 Q. Would you agree that the costs for which you
16 are seeking recovery of, some of which were incurred
17 in the period prior to 2002?

18 A. The costs that we are seeking recovery of
19 represent one-third of a pool of dollars. That pool
20 of dollars were for buy down of the interest rate on
21 shared savings contracts that were initiated or
22 consummated, I should say, all the way from mid to

1 late '90s up through and including portions of 2002,
2 I believe.

3 Q. Are rate case expenses normally removed from a
4 deferral account as they are recovered in rates?

5 A. I don't believe that's the normal process I
6 have seen.

7 MR. FEELEY: I will have the court reporter
8 mark the following as Staff Cross Exhibit 1-Seitz
9 which is a response in answer to Staff Data Request
10 TQS-3.1.

11 (Whereupon ICC Staff
12 Cross Exhibit 1-Seitz
13 was marked for purposes
14 of identification as of
15 this date.)

16 MR. FEELEY:

17 Q. You have a copy of Staff Exhibit 1 Seitz in
18 front of you?

19 A. Yes, I do.

20 Q. And if I could direct your attention to your
21 surrebuttal testimony, page 8 of 9, lines 10 through
22 13?

1 A. Uh-huh.

2 Q. You ask yourself the following question on page
3 7: "Mr. Smith asserts that shared savings is a past
4 cost that was deferred to this rate case. Do you
5 agree with his assertion that shared savings is a
6 deferred past cost?" And you answer, "No, I do
7 not," and then you go on?

8 A. Uh-huh.

9 Q. Do you see that in your testimony?

10 A. Yes.

11 Q. If I could direct your attention to Staff Cross
12 Exhibit 1 Seitz which asks the following question:
13 "The Company's response to TQS-2.3 states that the
14 program was suspended in the state of Illinois."
15 And then the question is, "Is the program that is
16 referenced in response to TQS-2.3 the shared savings
17 program? If yes, answer the following questions,"
18 and it goes through A through F. Do you see that?

19 A. I am sorry, I don't have that response. I have
20 got TQS-2.1. Okay. Yes, I do have that.

21 Q. Okay. So this data request is asking questions
22 about the shared savings program, correct?

1 A. Yes, it is.

2 Q. And Part B asks how long will it be suspended,
3 and the reference is the shared savings program,
4 correct?

5 A. Yes.

6 Q. And could you please state the response to Part
7 B?

8 A. Part B's response is, quote, the program will
9 be suspended until we receive rate coverage for what
10 we have spent and permission from the ICC to
11 continue the program with additional rate coverage,
12 end of quote.

13 MR. FEELEY: Thank you. I still have more
14 questions for Mr. Seitz, but at this time I would
15 move to admit Staff Cross Exhibit 1-Seitz into the
16 record.

17 JUDGE JONES: Any objection?

18 MS. MOORE: No objection, Your Honor.

19 JUDGE JONES: Let the record show Staff Cross
20 Exhibit 1-Seitz is hereby admitted into the
21 evidentiary record. It consists of two pages and it
22 is marked as a hard copy exhibit.

1 (Whereupon ICC Staff
2 Cross Exhibit 1-Seitz
3 was admitted into
4 evidence.)

5 MR. FEELEY: I will go onto kind of a different
6 topic here, Mr. Seitz. I will have the court
7 reporter mark for identification Staff Cross Exhibit
8 2-Seitz. I believe Mr. Seitz has a copy of this.

9 THE WITNESS: Yeah, I do
10 (Whereupon ICC Staff
11 Cross Exhibit 2-Seitz
12 was marked for purposes
13 of identification as of
14 this date.)

15 MR. FEELEY:

16 Q. Staff Cross Exhibit 2-Seitz is an order from
17 Docket Number 97-0088 along with a late-filed
18 Exhibit 4 which consists of ten pages. The first
19 five pages are a contract for gas and for the
20 subject of that docket, and the end pages are
21 Exhibit A to that gas contract. Do you have that in
22 front of you, Mr. Seitz?

1 A. Yes, I do.

2 Q. Now, on your rebuttal testimony, page 3 of 10,
3 or I am sorry, at your rebuttal testimony, page 3 of
4 10, at lines 21 you refer to a gas contract,
5 correct?

6 A. Yes, I do.

7 Q. And in your surrebuttal testimony at page 3 of
8 9 you refer to a gas contract approved in Docket
9 97-0088, correct?

10 A. Yes.

11 Q. Staff Cross Exhibit 2-Seitz is the order from
12 that docket, correct, along with the gas contract
13 and its appendix or it is Exhibit A to that?

14 A. I believe that's correct.

15 Q. Okay. And that Exhibit A has various formulas,
16 correct?

17 A. Yes, it does.

18 Q. Those formulas show how costs get allocated to
19 South Beloit, correct?

20 A. Yes, they do.

21 Q. And that allocation is the area which you and
22 Staff witness Pearce, your testimony addresses that,

1 right?

2 A. Yes.

3 MR. FEELEY: At this time I would move to admit
4 into evidence Staff Cross Exhibit 2-Seitz which
5 consists of the order in Docket 97-0088 and
6 late-filed Exhibit 4 which is the contract for gas
7 and it's Exhibit A to that gas contract.

8 JUDGE JONES: Thank you. Any objection?

9 MS. MOORE: No, Your Honor.

10 JUDGE JONES: Let the record show that Staff
11 Cross Exhibit 2-Seitz is admitted into the
12 evidentiary record at this time. It is a hard copy
13 exhibit.

14 (Whereupon ICC Staff
15 Cross Exhibit 2-Seitz
16 was admitted into
17 evidence.)

18 MR. FEELEY: Still a few more questions for Mr.
19 Seitz.

20 Q. Mr. Seitz, you are an accountant, correct?

21 A. Yes.

22 Q. I am going to provide to Mr. Seitz here, I

1 don't plan on using this as a cross exhibit but I
2 would like him to refer to it, and it is a statement
3 of accounting, Statement of Financial Accounting
4 Standards Number 144. Would you look at this?

5 MS. MOORE: I am sorry, could you clarify what
6 the date is on that, please?

7 MR. FEELEY: Sure, Statement of Financial
8 Accounting Standards Number 144 dated August 2001.

9 Q. Mr. Seitz, do you know what the Financial
10 Accounting Standards Board is?

11 A. Yes.

12 Q. And would you agree that it is a rulemaking
13 body for the accounting profession which promulgates
14 accounting standards for entities using generally
15 accepted accounting principles?

16 A. Yes.

17 Q. And do you agree that the Financial Accounting
18 Standards Board issues statements of financial
19 accounting standards?

20 A. Yes, they do.

21 Q. And would you agree that a statement of
22 financial accounting standard is a rule that sets

1 forth generally accepted accounting principles?

2 A. Yes.

3 Q. And do you agree that the Financial Accounting
4 Standards Board issued a Statement of Financial
5 Accounting Standards 144 entitled Accounting for the
6 Impairment or Disposal of bond in lieu of assets?

7 A. I believe that's correct.

8 Q. Do you know what a long-lived asset is?

9 A. I believe I do.

10 Q. Would you agree it's an asset with a life in
11 excess of one year?

12 A. I think that would be a reasonable assumption.

13 Q. And would you agree that utility plant in
14 service would be an example of a type of long-lived
15 asset?

16 A. Yes.

17 Q. And if I could direct your attention to the
18 page that I have tabbed there, it is page 9,
19 paragraph 7, would you agree that according to the
20 Statement of Financial Accounting Standards 144 an
21 impairment exists when the carrying value of a
22 long-lived asset exceeds its fair value?

1 A. Yes, that is what it says.

2 Q. And would you agree with me that carrying value
3 is synonymous with book value?

4 A. I believe so.

5 Q. And would you agree that Statement of Financial
6 Accounting Standard 144 states that an impairment
7 loss shall be recognized only if the carrying amount
8 of a long-lived asset is not recoverable and exceeds
9 its fair value, the carrying amount of a long-lived
10 asset (asset group) is not recoverable if it exceeds
11 the sum of the undiscounted -- one second, if it
12 exceeds the sum of the undiscounted cash flows
13 expected to result from the use and eventual
14 disposition of the asset? Would you agree that's
15 stated at paragraph 7?

16 A. Yes.

17 Q. One second.

18 (Pause.)

19 MR. FEELEY: Thank you, Mr. Seitz. That's all
20 the questions that I have for Mr. Seitz, Judge
21 Jones.

22 JUDGE JONES: Thank you. Does the Company have

1 any redirect?

2 MS. MOORE: Yes, I just have a few
3 clarifications questions. It will only take a
4 second.

5 REDIRECT EXAMINATION

6 BY MS. MOORE:

7 Q. Mr. Seitz, Staff has presented you with Staff
8 Cross Exhibit 2-Seitz which is the order of the FCC
9 approving the gas contract?

10 A. Yes.

11 Q. What costs are allocated through the contract?
12 What is this a contract for?

13 A. This is a contract for Wisconsin Power and
14 Light, the parent company of South Beloit Water, Gas
15 and Electric, to provide those services to South
16 Beloit that are necessary and beyond the capacity of
17 South Beloit as an entity to provide gas service to
18 its customers in the state of Illinois.

19 Q. And to provide gas service, what do you mean by
20 that?

21 A. That would be the procurement, distribution,
22 metering, billing type activities related to

1 providing natural gas service.

2 Q. And it is your understanding per that order
3 that the Commission has already approved this
4 contract?

5 A. Yes.

6 Q. And the gas contract is separate and distinct
7 from the -- let me strike that.

8 MS. MOORE: I have no further questions.

9 JUDGE JONES: Is there any recross?

10 MR. FEELEY: Staff has no recross.

11 JUDGE JONES: Mr. Seitz, I have a couple
12 questions for you regarding the shared savings
13 program. I realize that more than one company
14 witness testified on that, regarding that program.
15 If I ask some questions that are in your opinion
16 better answered by the other company witness, just
17 let me know.

18 THE WITNESS: Okay.

19 EXAMINATION

20 BY JUDGE JONES:

21 Q. You address the issues associated with that
22 program in all three rounds of your testimony, is

1 that correct?

2 A. That is correct.

3 Q. Do you have a copy of schedule C-3 to your
4 original or direct testimony filing in the gas
5 docket?

6 A. Yes, I do.

7 Q. That's called Summary of Proposed Adjustment
8 (Gas), is that correct?

9 A. Yes.

10 Q. Does Reference H deal with the shared savings
11 program?

12 A. Both G and H deal with it, and Adjustment H,
13 line 52, I believe, is the amortization being
14 requested in revenue requirements, 9,683.

15 Q. Now, the line at the head of that, line 51,
16 that says Account 908 balance, is that correct?

17 A. Right.

18 Q. What was the source of the dollar amount shown
19 in line 51?

20 A. The shared savings contract buy down that
21 developed the pool of dollars was reviewed by our
22 company representatives that are more familiar with

1 the types of customers and what portions of those
2 buy downs related to the gas utility business
3 compared to the electric utility business. And
4 based on that analysis they gave us their portion of
5 the pool of dollars that represented the gas portion
6 of contracts.

7 Q. Customers in question enter into contracts, is
8 that correct?

9 A. Yes.

10 Q. The amount shown on line 51 would be associated
11 with contracts from what period of time? Let me ask
12 that a little differently. The amount shown in line
13 51 would be associated with contracts entered into
14 at what point in time or periods of time?

15 A. I believe we had a similar question earlier and
16 I indicated from I thought about the mid '90s up to
17 and including 2002.

18 Q. So that would include contracts entered into
19 prior to 1998, is that your testimony?

20 A. I believe there are a few of them prior to '98.

21 Q. In any event, the amount shown on line 51 is
22 recorded in Account 908, is that correct?

1 A. Yes.

2 Q. With regard to the shared savings program, what
3 events or activities affect the balance in Account
4 908?

5 A. The proposed accounting that we filed with the
6 Commission some time ago and I believe that
7 Ms. Osterholz had as an exhibit to her testimony
8 that laid out the accounting for these programs, the
9 process that was envisioned was that representatives
10 of South Beloit would work with customers, both
11 electric and gas, either combined customers,
12 combined being that they take both electric and gas
13 service from South Beloit, or if they would be
14 individual customers and only take electric or gas.
15 Working with those customers, we would identify
16 opportunities for changes in their processes,
17 operations, that normally would require the
18 installation of equipment, with the outcome of that
19 process to be that the installation of the equipment
20 would result in energy savings to the customer such
21 that the customer would repay the investment in that
22 equipment that is financed by South Beloit as well

1 as an interest or administrative fee.

2 Those contracts for the customer to pay for
3 those financing and interest or administrative fee
4 payments, when they are consummated, would result in
5 what we call a buy down of the carrying costs on
6 that investment. Because the customer is paying a
7 lower carrying cost than the utility could earn had
8 those resources used to finance that investment have
9 been redeployed and invested in other utility rate
10 base, those amounts on an ongoing basis, those buy
11 down amounts, would be the amounts that are
12 recovered in rates or included in revenue
13 requirements, would be the amounts recorded in
14 Account 908 for that applicable accounting period.

15 Q. With respect to Account 908, when did some
16 amount first appear in Account 908 with respect to
17 these projects?

18 A. 2002.

19 Q. Now, with regard to any given contract that was
20 entered into or consummated prior to 2002, what
21 accounting entries would be associated with the
22 recording of these buy downs or carrying cost

1 differentials or however you want to characterize
2 that?

3 A. They would result in a credit to the income
4 statement which is the same as a revenue item, would
5 be recorded as shared savings revenue. The other
6 side of that entry which us accountants call debit
7 would be put on the balance sheet. Since it is a
8 debit balance, it most likely would be put on the
9 asset side of the balance sheet.

10 Q. With regard to the balance sheet entry prior to
11 2002 -- let me back up a minute. I just want to
12 make sure I understood your prior answer correctly.
13 There were no amounts recorded in Account 908 prior
14 to 2002, at least with respect to these
15 transactions, is that correct?

16 A. That's correct.

17 Q. So whatever amounts were recorded or debited to
18 the balance sheet prior to 2002, they would have
19 been recorded in some other balance sheet account?

20 A. Yes.

21 Q. Do you recall what account was used for that
22 purpose prior to 2002?

1 A. I don't know for sure. My guess is it was
2 either Account 182 for regulatory assets or it may
3 have been recorded as a contra entry in a regulatory
4 liability account which is 250 something.

5 Q. Would this have occurred or these entries have
6 been made in connection with the consummation of
7 each of those contracts?

8 A. Yes, when the entries are made.

9 Q. Is it your testimony that -- let me back up a
10 minute. Could you look at your rebuttal testimony
11 at page 15 and 16, then also your surrebuttal at
12 page 8. The rebuttal is page 8 at lines 15 and 16,
13 if I did not state that correctly. So page 8 of
14 both pieces of testimony.

15 A. Okay.

16 Q. Now, lines 15 and 16 in your rebuttal says in
17 part no new contracts were signed in 2002, is that
18 right?

19 A. Oops, it says that. That's incorrect.

20 Q. Is it your statement that that statement is not
21 correct?

22 A. Right. It should have stated that no new

1 contracts were signed after 2002. There were some
2 signed in 2002.

3 Q. Do you know how many of those contracts were
4 signed in 2002?

5 A. From the total pool of contracts both electric
6 and gas, I think there was seven or eight of them.
7 I don't know how many of those may have been gas
8 only or related just to gas.

9 MS. MOORE: That may be a more appropriate
10 question for Mr. Carlson.

11 JUDGE JONES:

12 Q. Could you look at your surrebuttal at page 8?

13 A. Yes.

14 Q. Lines 13 and 14, please?

15 A. Yes.

16 Q. You state in part the costs reflect some
17 deferred costs as well as costs incurred during the
18 2002 test year?

19 A. Yes.

20 Q. When you say costs incurred during the 2002
21 test year, what are you talking about there?

22 A. Those would be the entries to record the buy

1 down of the carrying cost differential that occurred
2 with contracts that were consummated in 2002.

3 Q. So that would be to reflect the new contracts,
4 is that right?

5 A. I guess.

6 Q. Would costs incurred during 2002 insofar as
7 such costs appear in Account 908 include anything
8 other than costs, the effects of the contracts
9 during the 2002 test year?

10 A. Yes.

11 Q. Let me ask that a little differently. The
12 effect of the contracts in 2002 are reflected in the
13 Account 908, is that correct?

14 A. Yes, they are.

15 Q. Now, when you use the term "costs incurred
16 during the 2002 test year, are you reflecting
17 anything other than those two contracts consummated
18 in 2002?

19 A. As it relates to the surrebuttal testimony, no.

20 Q. So when you speak about costs incurred during
21 the 2002 test year, all you are talking about there
22 is the effect of the new contracts, is that correct?

1 A. In the surrebuttal testimony, yes, that is
2 correct.

3 Q. Now, let's assume for the moment that there
4 were no new contracts in 2002. Would the balance in
5 Account 908 have changed at all during 2002?

6 A. It would have changed.

7 Q. And why is that?

8 A. It would have changed from what it currently is
9 because of the contracts that are currently recorded
10 in 908 for the buy downs. If those go away, then
11 there wouldn't be the buy downs recorded in the
12 amount shown.

13 Q. Does the amount shown in Account 908 reflect
14 any costs other than those that arise from the new
15 contracts entered into in 2002?

16 A. Yes, it does.

17 Q. And what other costs would that include other
18 than those reflecting the effects of the new
19 contracts?

20 A. It would reflect the buy down of the carrying
21 cost differential for the prior contracts as well as
22 whatever legitimate expenses are recorded in Account

1 908.

2 Q. Once an amount is entered onto the books to
3 reflect the effects of the buy down, does that
4 change at all in future periods, assuming for the
5 moment that there is no rate recovery?

6 A. I am not sure I understand the question.

7 Q. All right. Let me ask it a little differently.
8 The amount shown for Account 908 is with respect to
9 the 2002 test year, is that correct? I am referring
10 to Schedule C-3.

11 A. Schedule C-3 shows the adjustments we made to
12 various accounts. The portion that is included for
13 2002 test year expenses is also shown there.

14 Q. But that says Account 908 balance, is that
15 correct?

16 A. Right.

17 Q. Is that the balance in Account 908 as of 2002?
18 What was the amount in Account 908 at 12/31/02?
19 What would that amount have been?

20 A. I don't -- hold on a second. Maybe I do have
21 that. I believe referring to my Gas Exhibit 1, C-2,
22 page 2 of 3, line 106, Customer Assistance Expense

1 Account 108, the amount recorded there was \$473,450.
2 I believe that was the amount that would have been
3 reported on the books and records of South Beloit
4 Water, gas and Electric Company.

5 Q. Which line is that on C-2, page 2?

6 A. I believe it is line 106 on C-2, page 2 of 3.

7 Q. And what is that amount for that? I have a date
8 stamp over mine.

9 A. \$473,450.

10 Q. That's the same amount that shows up on line 47
11 of C-3?

12 A. Give or take a couple bucks.

13 Q. What does that amount represent?

14 A. That amount represents the pool of shared
15 savings, contract buy downs, up through and
16 including contracts in 2002 that were previously
17 recorded as an asset account that were then removed
18 from the asset account and recorded in the 908
19 expense account. That pool of dollars then was
20 allocated between electric, gas and water. This is
21 the portion that got allocated to the gas utility
22 for year end 2002.

1 Q. So the amount on line 51 is simply the
2 allocated portion of the line on 47, is that correct
3 or is that your testimony?

4 A. No. Line 47 allocation was done with general
5 allocators and did not have the benefit of specific
6 contract review and identification. And that
7 specific contract review and identification is what
8 generated the amounts on line 550 and 51.

9 Q. Account 908, that's what type of account?

10 A. I believe it is Customer Assistance Expense.

11 Q. Are you testifying that that's a balance sheet
12 account or an income statement account?

13 A. It is an income statement expense account.

14 Q. So where does that show up on the balance
15 sheet?

16 A. It doesn't show up on the balance sheet.

17 Q. Now, if this amount of \$272,048 were to be
18 calculated again for 2003, would it look any
19 different than it does for 2002?

20 A. Assuming all the same contracts that made up
21 the balances that derive the 272,000, if we were to
22 do that analysis again with those same accounts in

1 2003, that amount would be the same.

2 Q. That's fine.

3 A. I think the answer is yes with those.

4 Q. So the amount would be the same if it were to
5 be recalculated for 2003 compared to 2002?

6 A. With those same contracts.

7 Q. But there have been no new contracts, correct?

8 A. Right.

9 Q. So it is the same, still the same contracts, in
10 2003 as there were in 2002, is that correct?

11 A. Yes.

12 Q. In fact, that's the same contracts today or is
13 it?

14 A. There probably are some that are finalized.

15 Q. What do you mean finalized?

16 A. That the customer has paid all of the carrying
17 costs and all of the equipment on.

18 Q. Does that affect the balance that you have been
19 telling us about when that occurs?

20 A. It would not affect the charges to Account 908.

21 Q. So is it your testimony that once those buy
22 downs occur -- let me back up a minute, once a buy

1 down occurs, the entries are made, then that amount
2 will not change over time unless rate recovery
3 occurs, is that your understanding?

4 A. That amount per contract will not change. That
5 buy down amount per contract will not change.

6 Whether it is located on the balance sheet or comes
7 through an expense account to a large extent is
8 determined by the rate recovery process.

9 Q. So if a contract is consummated, certain
10 accounting entries are made, is that correct?

11 A. Right.

12 Q. And those entries are made to reflect the
13 effects of the consummation of the contract by he
14 buy down?

15 A. Yes, that's correct.

16 Q. Will those amounts remain unchanged over time
17 unless rate recovery occurs?

18 A. Those buy down amounts associated with those
19 specific contracts, once they are determined, they
20 don't change.

21 Q. The only thing that will change that total
22 would be either new contracts or rate recovery, is

1 that your testimony?

2 A. New contracts would change the amount.

3 Q. It would change the total, right?

4 A. Rate recovery will determine where the amounts
5 will be recorded.

6 Q. But from a ratemaking standpoint or for
7 purposes of the types of schedules that you have
8 included with your testimony here, is it your
9 testimony that if some ratable portion of that
10 balance is recovered via the ratemaking process,
11 that that portion will be backed out of the balance
12 for ratemaking purposes or ratemaking revenue
13 schedule purposes?

14 A. We have already removed all those items out of
15 the balance. That's what the adjustment on line 47
16 was. So we don't have any balance sheet items now.
17 All we have got is calendar year 2002 expenses.
18 These are the adjustments we would like to see made
19 to those expenses to provide a recovery of a portion
20 of the buy downs as it relates to gas contracts.
21 With that rate recovery we would then start doing
22 more contracts, new contracts.

1 Q. What is the status of the program right now in
2 Illinois so far as electric is concerned, if you
3 know?

4 A. It is the same status as the gas. It was
5 discontinued mid 2002. Any amount of buy downs that
6 was recorded on the balance sheet were removed from
7 the balance sheet and recorded in the electric 908
8 expense account.

9 Q. What are the Company's plans with regard to
10 that program, if you know?

11 A. Until there is a determination of rate recovery
12 of any portion of that or new contracts, I am pretty
13 sure we won't be doing those type of contracts.

14 Q. For electric customers?

15 A. Right.

16 Q. Let's just assume for the moment that the
17 Company were successful in its adjustment in this
18 docket. Is it your testimony that the Company would
19 enter into new contracts for gas buy downs?

20 A. I believe that's true.

21 Q. Where would that leave the electric?

22 A. Still in limbo, I think.

1 Q. Now, Adjustment H amortized shared saving
2 program costs over three years, is that correct?

3 A. Yes, yes.

4 Q. And the amounts shown on line 52 of Schedule
5 C-3 is the ratable or one-third portion of that
6 balance shown on the line above it, is that right?

7 A. Yes.

8 Q. Why was a three-year amortization period
9 selected?

10 A. We had seen similar amortization periods for
11 similar items. And while it is not definite, it is
12 very probable that South Beloit would be filing
13 another gas case in approximately that time frame,
14 three years.

15 Q. Just one minute here.

16 A. No problem.

17 (Pause.)

18 Q. In your rebuttal, page 7 or page 8, that is?

19 A. Uh-huh.

20 Q. You state on lines 18 and 19 in part a program
21 remains in existence for WPL customers on the WPL
22 system?

1 A. That is correct.

2 Q. Is that still the case?

3 A. Yes.

4 Q. Now, that is with respect to what type of
5 customers?

6 A. Both electric and gas.

7 Q. Were there new customers or new contracts
8 signed in 2004, if you know?

9 A. Yes, I believe so.

10 Q. Is the Company attempting to recover what it
11 perceives as carrying costs shortfall represented by
12 the Company's calculated carrying costs or cost of
13 capital on the one hand and the interest paid by the
14 customers on the other?

15 A. Yes.

16 Q. Some instances you refer to interest paid by
17 customers and in other instances you refer to
18 administrative fees paid by customers. Are you
19 using those terms somewhat interchangeably?

20 A. Yes.

21 Q. As far as how they are used in the present
22 value calculation that is done?

1 A. Yes.

2 Q. Whatever interests or carrying costs the
3 customer pays are being paid through the
4 administrative fee, is that correct?

5 A. I believe the administrative fee covers not
6 only the carrying costs that the customer is paying;
7 I think it also helps reimburse for some of the
8 specific activities performed by South Beloit
9 representatives in bringing to fruition the contract
10 with the customer, whether they be consulting fees,
11 engineering studies.

12 Q. With respect to whatever portion of what the
13 Company believes the carrying costs are that are
14 associated with these contracts, whatever portion
15 the customer pays, are those paid solely through the
16 administrative fee by the customer?

17 A. Yes.

18 Q. So whatever interest or whatever carrying costs
19 the customer is actually paying relative to these
20 contracts, that is paid solely through the
21 administrative fee?

22 A. That is correct.

1 JUDGE JONES: That's all the questions I have
2 for Mr. Seitz. Any follow-up questions?

3 MR. FEELEY: I have one follow up question.
4

5 RECROSS EXAMINATION

6 BY MR. FEELEY:

7 Q. Mr. Seitz, when Judge Jones was talking to you
8 about your Schedule C-3 and that figure \$272,048?

9 A. Uh-huh.

10 Q. If rate recovery is denied, will the \$272,048
11 be written off from the balance sheet immediately?

12 A. It is already written off. I don't think
13 generally accepted accounting principles would allow
14 us to do it again.

15 MR. FEELEY: That's all I have.

16 MS. MOORE: I just have one quick follow-up to
17 a question that you asked.

18 JUDGE JONES: Sure.

19 REDIRECT EXAMINATION

20 BY MS. MOORE:

21 Q. Mr. Seitz, on page 18, line 119, the
22 Administrative Law Judge referred you to the program

1 in Wisconsin for Wisconsin Power and Light, the
2 shared savings program?

3 A. Yes.

4 Q. Does Wisconsin Power and Light receive rate
5 recovery for their shared savings program?

6 A. For the interest buy down, yes, they do.

7 MS. MOORE: Thank you. I have no further
8 questions.

9 JUDGE JONES: Is there any other follow-up
10 questions from anybody?

11 MR. FEELEY: No more cross from Staff.

12 JUDGE JONES: Okay. Thank you, Mr. Seitz.

13

14 (witness excused.)

15 JUDGE JONES: We will take a quick break in
16 just a few minutes. I just want to make sure that
17 the record is clear on what exhibits are offered
18 there so the transcript will be a good source for
19 anyone that is looking that up.

20 Mr. Seitz's direct, rebuttal and
21 surrebuttal testimony have all been admitted into
22 the evidentiary record. And they were admitted as

1 filed electronically. I just need to provide a
2 little bit more then in the way of dates so that the
3 transcript will contain that information.

4 MS. MOORE: Your Honor, the correction that Mr.
5 Seitz made on page 8 of his rebuttal testimony on
6 line 16, changing the "in" to the "after", we
7 reflect that on the record and then we would follow
8 up with a corrected version being filed on e-Docket.
9 So it would read, "No new contracts were signed
10 after 2002," instead of, "No new contracts were
11 signed in 2002," just to clarify a point.

12 JUDGE JONES: What is it you are wanting to do?

13 MS. MOORE: I guess however best you would
14 like us to handle it. I would like to note that
15 change, and then if you would like us to file
16 corrected testimony on e-Docket, we can do that, or
17 do you just want to note the change that was
18 corrected verbally?

19 JUDGE JONES: I mean, the testimony is in the
20 record. I mean, the response to the question is in
21 the record and I would just leave it at that from my
22 end. But if the Company with Staff's indulgence

1 would prefer to make another filing to reflect that
2 change, you could request the opportunity to do so
3 and we will sort of take that up. So did you want
4 leave to do that?

5 MS. MOORE: Yes, could we have leave to do
6 that?

7 MR. FEELEY: There is no objection from Staff
8 to make that change.

9 JUDGE JONES: And what you are asking leave to
10 do is to resubmit electronically Mr. Seitz's
11 rebuttal testimony, Company Exhibit MWS-2, to
12 incorporate that change that he testified to today.

13 MS. MOORE: Correct.

14 JUDGE JONES: All right.

15 MS. MOORE: Thank you, Your Honor.

16 JUDGE JONES: Leave is given to do that, seven
17 days. And just so the record is clear, do you want
18 both pieces of testimony to remain in the record or
19 just the new version? And Staff can weigh in here,
20 too, if you have a position on that.

21 MS. MOORE: I have no preference.

22 MR. FEELEY: It doesn't matter.

1 JUDGE JONES: All right. Well, we will leave
2 the existing piece of testimony in the record. If
3 over the course of the day or something there is
4 some change of mind on that, we can take that back
5 up later. But for now we will say that the existing
6 testimonies, including the rebuttal, are in the
7 evidentiary record and the new filing will be in
8 addition to that and it will reflect the one change.

9 Just so the record is clear, the direct
10 testimony of Mr. Seitz, Company Exhibit MWS-1 with
11 schedules was filed electronically on October the
12 10th on the gas side, so that will be known as MWS-1
13 (Gas). On the water side, MWS-1 (Water) is admitted
14 as filed electronically on October 15, 2003. That
15 includes the attached schedules. The rebuttal was
16 filed on April 9, 2004, MWS-2. Lastly, the
17 surrebuttal was filed on May 12, 2004, and it is
18 MWS-3.

19 So at this time we will take a five-minute
20 break and then we will proceed with the next
21 witness.

22 (Whereupon the hearing

1 was in a short recess.)

2 JUDGE JONES: Back on the record. According to
3 the witness line-up we are ready for the next
4 Company witness and that is who?

5 MS. MOORE: Mr. Bacalao.

6 JUDGE JONES: So, sir, if you would come up
7 here and sit, either of those two places, and we
8 will swear you in.

9 (Whereupon the Witness
10 was duly sworn by Judge
11 Jones.)

12 JUDGE JONES: Please be seated.

13 ENRIQUE BACALAO
14 called as a Witness on behalf of South Beloit Water,
15 Gas and Electric Company, having been first duly
16 sworn, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MS. MOORE:

19 Q. Could you please state your name and business
20 address for the record.

21 A. My name is Enrique Bacalao and I will spell
22 that, E-N-R-I-Q-U-E B-A-C-A-L-A-O. My business

1 address is 4902 North Biltmore Lane, P.O. Box 77007,
2 Madison, Wisconsin 53707.

3 Q. And by whom are you employed and in what
4 capacity?

5 A. I am employed by Alliant Energy Corporate
6 Services, Inc., as Assistant Treasurer.

7 Q. And did you file testimony in this current
8 docket?

9 A. Yes, I did.

10 Q. Did your testimony consist of prefiled direct
11 testimony consisting of 24 pages of questions and
12 answers and Exhibits EB-2 through EB-22 for the gas
13 case that was submitted on October 10, 2003?

14 A. Yes.

15 Q. And did you also file prefiled direct testimony
16 consisting of 24 pages of questions and answers with
17 the attached Exhibits EB-2 through EB-22 for the
18 water case?

19 A. Yes, I did as well.

20 Q. And those two exhibits were marked as EB-1,
21 respectively, for both but then we would have -- but
22 one was filed for the gas and one was filed for the

1 water case, correct?

2 A. That is correct, yes.

3 Q. And did you also file prefilled rebuttal
4 testimony consisting of 12 pages on April 8, 2004?

5 A. Yes.

6 Q. And that has been marked as Company Exhibit
7 EB-23?

8 A. Yes.

9 Q. And you also filed surrebuttal testimony
10 consisting of 11 pages filed on May 11, 2004,
11 identified as EB-24?

12 A. Yes, I did.

13 Q. Did you have any changes to any of these
14 prefilled testimonies?

15 A. Yes, I have one minor change to the surrebuttal
16 testimony that you refer to as EB-24. On page 10 of
17 11, line 11, there is one redundant word I would
18 like to strike and that is the word "why". So it
19 would now read, "No, she failed to demonstrate her
20 contention that the leveraging adjustment increases
21 the total risk of the sample."

22 Q. I am sorry, I didn't catch that. Could you

1 just repeat it one more time for me?

2 A. Certainly. Page 10 of 11, line 11, the word
3 why, W-H-Y, I would like to strike that word. It is
4 redundant. So that corrected the line would now
5 read, "No, she failed to demonstrate her contention
6 that the leveraging adjustment increases the total
7 risk of the sample."

8 Q. And if I were to ask you the same questions
9 consisting of all this testimony, would your answers
10 be the same?

11 A. Yes, they would.

12 MS. MOORE: At this time I would offer into
13 evidence all the Company marked Exhibits EB-1, 2,
14 EB-23 and EB-24 and attached schedules to the
15 testimony which would be EB-1, subject to cross
16 examination and tender Mr. Bacalao for cross
17 examination.

18 JUDGE JONES: Thank you. Any objection to
19 that?

20 MR. FEELEY: Staff has no objection.

21 JUDGE JONES: Let the record show that those
22 exhibits sponsored by Mr. Bacalao are admitted into

1 the evidentiary record. They are admitted as filed
2 electronically on different dates. Let's see.
3 Company Exhibit EB-1 is admitted as filed on October
4 10, 2003, in the gas docket so that will be known as
5 Company Exhibit EB-1 (Gas). Company Exhibit EB-1
6 (Water) is admitted as filed electronically on
7 October 15, 2003. At least the dates I am giving
8 are the dates that appear on the e-Docket system
9 under documents as the dates of those filings.

10 I would note that both the above filings
11 include all attachments thereto as listed in the
12 e-Docket record system, I think EB-2 through EB-22
13 in each of those.

14 Company Exhibit EB-23 is admitted as filed
15 electronically on April 9, 2004. Company Exhibit
16 EB-24 is admitted as filed electronically on May 12,
17 2004.

18 (Whereupon Company
19 Exhibits EB-1(Gas),
20 EB-1(Water), EB-23 and
21 EB-24 were admitted
22 into evidence.)

1 JUDGE JONES: I believe Staff has some
2 questions for this witness, is that correct?

3 MR. FEELEY: Yes, we have a few.

4 JUDGE JONES: Go ahead.

5 CROSS EXAMINATION.

6 MR. FEELEY:

7 Q. Good afternoon, Mr. Bacalao. My name is John
8 Feeley and I represent the Staff. Are you familiar
9 with a sustainable growth model which states that
10 growth is a product of the retention ratio, B, and
11 the expected return on equity, R; that G,
12 representing growth, would equal B times R?

13 A. Yes, I am familiar with it.

14 Q. According to that model would companies with
15 higher dividend payout ratios, i.e. lower retention
16 ratios, have lower growth rates, all else equal?

17 A. Could you repeat that, please? I didn't follow
18 that.

19 Q. Sure. According to the sustainable growth
20 model would companies with higher dividend payout
21 ratios have lower growth rates, all else equal?

22 A. According to that model, yes.

1 Q. In your discounted cash flow analysis you
2 employed a terminal growth rate of 7.97 percent, is
3 that correct? That would be referenced in your
4 direct testimony, page 2. Actually, I don't think
5 that's the right reference.

6 A. No, bear with me. It's page 21, line 15,
7 7.979.

8 Q. I will ask my question again. In your
9 discounted cash flow analysis you employed a growth
10 rate of 7.979 percent which was based on historical
11 growth in the normal gross domestic product over the
12 1970 through 2002 period, is that correct?

13 A. That is correct, sir, yes.

14 Q. Did you examine the rate of growth in earnings
15 or dividends of the utility sector over that same
16 period?

17 A. No, not for the purposes of my testimony.

18 Q. Direct your attention to your surrebuttal
19 testimony, page 4, lines 8 through 9.

20 A. Uh-huh.

21 Q. You state in your testimony dividends are not
22 the only form of distribution available to

1 investors. Do you see that in your testimony?

2 A. I do, yes.

3 Q. What other distribution of cash is available to
4 investors?

5 A. There are several other forms of distribution.
6 Apart from special dividends you can also dividend
7 assets. You can -- and that's the primary form of
8 alternative, cash being one form of asset.

9 Q. Do you agree that total risk consists of both
10 financial and operating risk?

11 A. Those are two important components of it, yes.

12 Q. And would you agree that the greater the
13 proportion of debt to equity in the capital
14 structure, the greater the financial risk?

15 A. Yes, I would agree with that.

16 Q. If financial risk increases and operating risk
17 remains constant, total risk would also increase,
18 correct?

19 A. All else being equal, yes.

20 MR. FEELEY: That's all I have, thank you.

21 JUDGE JONES: Is there any redirect?

22 MS. MOORE: Yes, I do have one, sorry.

REDIRECT EXAMINATION

BY MS. MOORE:

Q. Mr. Bacalao, turning back to page 21, we were talking about your growth rate. Was your DCF model a single stage -- or single phase, I am sorry, single, or was it a two-stage model or a single stage model?

A. It was a two-stage model.

Q. And in that two-stage model do you have two different growth rates?

A. Yes, I do. For the first date which is five years I use the growth estimates, five-year growth estimates, as provided by Sachs (sp) Investment Research. That would be the first stage. And then for the last period which goes from year six to infinity, that's the one that I used 7.979 percent.

Q. And what is the benefit of using a two-stage model?

MR. FEELEY: Well, I will object to the question. I think it's going beyond the scope of my cross examination.

MS. MOORE: That's fine. I can withdraw the

1 question. And I have no further redirect.

2 JUDGE JONES: Is there any recross?

3 MR. FEELEY: No.

4 JUDGE JONES: Thank you, Mr. Bacalao. You are
5 finished.

6 (Witness excused.)

7 JUDGE JONES: Mr. Carlson.

8 MS. MOORE: Did you want to break? I didn't
9 know if you wanted to break or continue.

10 JUDGE JONES: Off the record regarding
11 scheduling.

12 (Whereupon there was
13 then had an
14 off-the-record
15 discussion.)

16 JUDGE JONES: Back on the record. There was a
17 short off-the-record regarding scheduling. I think
18 the preference of the parties is to move along to
19 the next Company witness.

20 MS. MOORE: The Company calls Mr. Douglas K.
21 Carlson.

22 JUDGE JONES: Mr. Carlson, would you raise your

1 hand to be sworn.

2 (Whereupon the Witness
3 was duly sworn by Judge
4 Jones.)

5 DOUGLAS K. CARLSON
6 called as a Witness on behalf of South Beloit Water,
7 Gas and Electric Company, having been first duly
8 sworn, was examined and testified as follows:

9 DIRECT EXAMINATION

10 BY MS. MOORE:

11 Q. Would you please state your name and business
12 address for the record.

13 A. My name is Douglas K. Carlson. I am the
14 Director of Demand Side Management Programs and New
15 Product Development. I am employed by Alliant
16 Energy Corporate Services, Inc. My business address
17 is 4902 North Biltmore Lane, P.O. Box 77007,
18 Madison, Wisconsin 53707.

19 Q. And in what capacity are you employed with
20 Alliant Corporate Services?

21 A. I am the Director of Demand Side Management
22 Programs and New Product Development.

1 Q. Could you please provide what exactly that
2 position entails and what are your current duties
3 and responsibilities?

4 A. I direct the staff of the demand side
5 management professionals that help design and
6 implement our energy efficiency programs. We are
7 also responsible for developing new products and
8 services, both energy efficiency products as well as
9 value added products and services on behalf of our
10 customers.

11 Q. And is Ms. Jill Osterholz under your direct
12 supervision?

13 A. Ms. Jill Osterholz is direct supervisor.

14 Q. Could you please give us a little bit about
15 your educational background?

16 A. Sure. I have a Bachelors in Economics as well
17 as a Masters Degree in Urban Regional Planning and a
18 Masters Certification in Energy Analysis and Policy,
19 all from the University of Wisconsin - Madison.

20 Q. And you have given us a little bit of
21 background of your current work experience. Can you
22 just give us a brief summation of your past work

1 experience?

2 A. Prior to being employed as the director of DSM
3 Programs and New Products, I was the Director of
4 Market and Competitive Analysis for Alliant Energy
5 Resources. Prior to that position I was a senior
6 market and competitive analyst for Alliant Energy
7 Resources. Prior to joining Alliant Energy I was
8 employed by a consulting firm of Power System
9 Engineering incorporated in Madison, Wisconsin, from
10 1994 to 2001. In my previous consulting experience
11 I designed and evaluated demand side management
12 programs for numerous utilities in both the Midwest
13 and the northeast United States.

14 Q. Okay. And did you supervise Ms. Osterholz when
15 she filed her direct, rebuttal and surrebuttal
16 testimony in this docket?

17 A. Yes, I did.

18 Q. Is the purpose of your testimony here today to
19 adopt the prefiled testimony of Ms. Jill Osterholz?

20 A. Yes, it is.

21 Q. So that would lead us to the first prefiled
22 testimony for the gas case that was filed on October

1 10, 2003, identified as Company Exhibit JO-1. Is it
2 your intention to adopt this testimony beginning on
3 line, page -- beginning on page 2, line 15,
4 beginning with "What is the purpose of your
5 testimony," and all the way to the end of page 9
6 and to also include the five pages worth of exhibits
7 attached to that as JO-2, what has been marked as
8 JO-2?

9 A. Yes, it is.

10 Q. Is it also your intention to adopt the rebuttal
11 testimony of Ms. Osterholz which has been marked as
12 Company Exhibit JO-3 and filed on e-Docket on April
13 9, 2004, consisting of a question and -- well, let
14 me strike that. You would adopt the testimony
15 beginning on page 2, starting at line 11, describing
16 the purpose of the testimony and continuing to the
17 end which would be page 13, and you would also adopt
18 the rebuttal exhibit marked as JO-4 consisting of
19 two pages, is that your intention?

20 A. That is correct.

21 Q. And is it also your intention to adopt the
22 surrebuttal testimony of Ms. Osterholz that was

1 filed on May 12, 2004, consisting of six pages of
2 questions and answers in which you would adopt, you
3 would begin on page 2 and adopt from line 11
4 starting with what is the purpose of your rebuttal
5 testimony until the end on page 6, and adopt Exhibit
6 JSO-6?

7 A. Yes, it is.

8 Q. If I were to ask you the same questions that
9 are contained in this testimony, would your answers
10 be the same?

11 A. Yes, they would.

12 Q. Do you have any changes to this testimony?

13 A. I do not.

14 MS. MOORE: At this time, Your Honor, I would
15 like to offer into evidence Company Exhibit JO-1
16 with Exhibit JO-2 as filed on October 10, 2003, for
17 the gas proceeding as adopted by Mr. Carlson, as
18 well as the rebuttal testimony that has been
19 identified as JO-3 with Exhibit JO-4 as adopted by
20 Mr. Carlson and that was as I stated previously
21 filed April 9, 2004, and submitted into evidence as
22 adopted by Mr. Carlson JSO-5 and JSO-6 which would

1 be the surrebuttal testimony consisting of questions
2 and answers and exhibits subject to cross
3 examination, and at this time tender Mr. Carlson for
4 cross examination.

5 JUDGE JONES: Thank you. Just for
6 clarification, the exhibits that you are offering
7 are being offered as they appear on the e-Docket
8 system, is that correct?

9 MS. MOORE: Correct, and that would also
10 include the corrected version that was filed on
11 Monday the 17th.

12 JUDGE JONES: That's the corrected version of
13 JO-1, is that right?

14 MS. MOORE: Correct.

15 JUDGE JONES: Now, did you want to file both
16 the original version submitted on October 10 and the
17 corrected version submitted on May 17 or just the
18 latter?

19 MS. MOORE: Just the latter, Your Honor.

20 JUDGE JONES: Now, the original filing had some
21 attachments to it, is that correct?

22 MS. MOORE: Correct. All three rounds of her

1 testimony, the direct, rebuttal and surrebuttal
2 testimony, included exhibits.

3 JUDGE JONES: Did the corrected direct contain
4 the same attachment as was attached to the original
5 testimony?

6 MS. MOORE: I believe we just filed the
7 corrected Q and A so the Exhibit JO-2 would be from
8 the original filing from October 10, 2003.

9 JUDGE JONES: So just to make sure we are clear
10 here, you are still wanting to offer JO-2 as a
11 stand-alone exhibit from the October 10 filing, is
12 that your plan? Because, otherwise, if it is not
13 attached to the corrected filing, then I am not sure
14 what its status would be.

15 MS. MOORE: In which case let me redact my
16 request. What we would be asking is that the
17 original filing also be included on 10/10/03 which
18 would incorporate the Exhibit JO-2. So we would
19 have the original filing filed on October 10 and
20 also the corrected filing on May 17 in the record.

21 JUDGE JONES: So we will give the May 17 filing
22 some sort of suffix just to distinguish it from the

1 original one. That would be JO-1 something. It
2 could be revised or corrected or however you want
3 it.

4 MS. MOORE: Revised would be fine.

5 JUDGE JONES: Mr. Feeley, any thoughts on any
6 of that?

7 MR. FEELEY: That's fine.

8 JUDGE JONES: Let the record show -- let me
9 back up a minute. Are there objections to any of
10 the above being admitted?

11 MR. FEELEY: Staff has no objection to those
12 evidence being admitted.

13 JUDGE JONES: Let the record show that those
14 exhibits are hereby admitted into the evidentiary
15 record.

16 Just so the record is clear, that would
17 include Company Exhibit JO-1 filed on October 10,
18 2003. It is admitted as it appears in the e-Docket
19 system and the admission of that exhibit includes
20 JO-2 which was filed with it. JO-2 will be treated
21 as part of JO-1.

22 Also admitted is Company Exhibit JO-3,

1 filed electronically on April 9, 2004.

2 Also admitted is Company Exhibit JSO-5,
3 filed electronically on May 12, 2004. JSO-5
4 includes JSO-6 which was filed with it. So the
5 admission of JSO-5 includes JSO-6 as part of JSO-5.

6 I should also note that on the rebuttal
7 filing there was an attachment to that as well,
8 identified as JO-4 and that is treated as part of
9 JO-3 which has been admitted. I think that covers
10 it, any further clarifications on that? Okay.
11 There are not.

12 (Whereupon Company
13 Exhibits JO-1, JO-3,
14 and JSO-5 were admitted
15 into evidence.)

16 JUDGE JONES: I believe Commission Staff has
17 some -- did you have anything else with respect
18 to...

19 MS. MOORE: No, Your Honor.

20 JUDGE JONES: ..the offering of those exhibits?
21 Mr. Feeley, does Staff, Commission Staff, still have
22 some questions for Mr. Carlson?

1 MR. FEELEY: Yes, we do.

2 CROSS EXAMINATION

3 BY MR. FEELEY:

4 Q. Good afternoon, Mr. Carlson.

5 A. Good afternoon.

6 Q. My name is John Feeley and I represent the
7 Staff. If I could direct your attention to your
8 surrebuttal testimony, page 3, lines 33 and 34?

9 A. Yes.

10 Q. On page 3 of your surrebuttal on lines 33 and
11 34 you state the following: "No, I do not believe
12 the shared savings program requires one group of
13 customers to subsidize another group of customers as
14 Mr. Smith claims." Do you see that in your
15 testimony?

16 A. Yes, I do.

17 Q. Do you agree that your Exhibit JSO-6 indicates
18 that a total of 14 natural gas customers
19 participated in the shared savings program from 1998
20 to 2003?

21 A. Yes, I agree with that.

22 Q. Do the participants in shared savings pay to

1 the Company the Company's full cost of the loans
2 which the participants receive?

3 A. The participants pay the difference between the
4 Company's cost of capital and the administrative fee
5 which we refer to as the buy down. I am sorry,
6 could you rephrase the question or restate the
7 question?

8 Q. I will ask. Do the participants in shared
9 savings pay to the Company the Company's full cost
10 of the loans which the participants receive?

11 A. I would like to retract my previous response.
12 The customers pay a portion of that cost.

13 Q. Okay. Do you have in front of you or are you
14 familiar with an exhibit that was attached to Mr.
15 Seitz's testimony, Exhibit MWS-1, Schedule C-3, page
16 1 of 1?

17 A. I do not believe that I have that reference.

18 MS. MOORE: The schedule is in reference to the
19 gas case. I mean, sorry, is it?

20 MR. FEELEY:

21 Q. Again, now, do you have in front of you what's
22 been marked for identification as MWS-1, Schedule

1 C-3, page 1 of 1, from Martin w. Seitz for gas?

2 A. Yes, I do.

3 Q. And if I could direct your attention to line,
4 looks like, 52, there is a figure of \$90,683?

5 A. That is correct.

6 Q. With respect to that number, do you agree that
7 the \$90,683 adjustment on line 52 is the amortized
8 difference between the Company's cost of capital and
9 the cost of the loans that are charged to
10 participants of the Company's shared savings
11 program?

12 A. Yes, I do.

13 Q. Is it the Company's intention that the \$90,683
14 of costs be recovered only from participants in the
15 savings sharing plan?

16 A. No, it is not.

17 Q. Is it the Company's intention that the \$90,683
18 of costs be recovered from the Company's general
19 customer base?

20 A. That is correct.

21 Q. And it is your position that the shared savings
22 program provides benefits for customers in addition

1 to the participants?

2 A. Yes, it is.

3 Q. That's fine. If South Beloit were to identify
4 equipment which would save you energy consumption,
5 would you expect the Company to purchase the
6 equipment for you?

7 MS. MOORE: Are you asking that as a
8 hypothetical?

9 MR. FEELEY: Yes.

10 Q. Assume you are a customer. And if South Beloit
11 were to identify equipment which would save you
12 energy consumption, would you expect the Company to
13 purchase the equipment for you?

14 A. I would not anticipate that the Company would
15 purchase the equipment for me, no.

16 Q. And if South Beloit were to identify equipment
17 which would save you energy consumption, would you
18 expect the Company to loan you money to purchase the
19 equipment at a lower than market interest rate?

20 A. As part of general energy efficiency policy,
21 there are a variety of different incentives that can
22 be offered to help enable the energy efficiency

1 market and the installation of cost effective energy
2 efficiency equipment. This is one manner in which
3 that can be done.

4 Q. But assume you are a customer of South
5 Beloit's, and if South Beloit were to identify
6 equipment which could save you energy consumption,
7 would you expect the Company to loan you money to
8 purchase the equipment at a lower than market
9 interest rate?

10 MS. MOORE: I am going to object to the
11 foundation. Perhaps if you could place a foundation
12 on your question. It is a little open ended.

13 MR. FEELEY: It's a hypothetical, assuming that
14 you are a customer.

15 Q. Are you a customer of South Beloit?

16 A. I am not.

17 Q. Well, assume you are a customer -- what's your
18 utility?

19 A. Madison Gas and Electric.

20 Q. Would you expect Madison Gas and Electric to
21 identify equipment which would save you energy
22 consumption -- or strike that. If Madison Electric

1 were to identify equipment which would save you
2 energy consumption, would you expect the Company to
3 loan you money to purchase the equipment at a lower
4 than market interest rate?

5 A. In many cases, it is likely that the utility
6 company would provide some sort of incentive to
7 enable the cost effective installation of energy
8 efficient equipment. So I cannot answer your
9 question. Categorically, no.

10 Q. Have any of the participants -- this is getting
11 back to South Beloit. Have any of the participants
12 directly stated to the Company that their decision
13 to participate in the savings sharing program was
14 based on a charitable desire to provide the
15 Company's customers with benefits?

16 A. I have not heard a customer directly state it
17 in that fashion.

18 Q. Could you go to your surrebuttal testimony,
19 page 4, lines 61 through 63?

20 A. Yes.

21 MS. MOORE: I am sorry, which one?

22 MR. FEELEY: Surrebuttal, page 4, lines 61

1 through 63.

2 Q. Halfway through line 61 you state the following
3 going on through line 63: "With Mr. Smith's
4 reasoning you would have to allocate costs of
5 service to individual customers in order to be
6 equitable and eliminate all subsidies among
7 customers." Do you see that in your testimony?

8 A. Yes, I do.

9 Q. Would you agree with me that Mr. Smith does not
10 state in his testimony that it is proper to allocate
11 cost of service to individual customers?

12 A. Do you have a line reference or are you asking
13 a general question from Mr. Smith's testimony?

14 Q. Well, you reviewed Mr. Smith's testimony?

15 A. Yes, I have.

16 Q. Did you see anywhere in his testimony where he
17 stated that it is proper to allocate cost of service
18 to individual customers?

19 A. No, I did not.

20 Q. Still with your surrebuttal testimony, page 5,
21 lines 70 through 72?

22 A. Yes.

1 Q. You state the following beginning halfway
2 through on line 70: "She modified her cost of
3 service model to allocate shared savings expenses
4 based upon each rate class's involvement in the
5 shared savings program." Do you see that in your
6 testimony?

7 A. Yes, I do.

8 Q. Are meter reading costs allocated to all
9 customer classes based upon each rate class's
10 involvement in meter use?

11 A. I would need to refer that question to
12 Ms. Kessinger who is our expert witness in rate
13 matters.

14 Q. So you are not able to answer that question?

15 A. I would like to refer that to Ms. Kessinger.

16 Q. Well, can you answer it?

17 A. I cannot answer exactly how our metering costs
18 are allocated to customers.

19 Q. Are meters used in providing service to all
20 customers?

21 A. No, not all electric and gas customers.

22 Q. But in reference to just gas customers, are

1 meter reading costs allocated to all customer
2 classes based upon each rate class's involvement in
3 meter use, just in reference to gas customers?

4 A. I believe that they are.

5 Q. And are meters used in providing service to all
6 gas customers?

7 A. I believe that they are.

8 Q. Do customers choose not to have meters attached
9 to their services?

10 MS. MOORE: Your Honor, I am going to object to
11 this line of questioning. I have offered this
12 witness as a demand side expert and not a metering
13 or operations expert. I let it go a few couple
14 questions but, again, we are getting beyond what
15 this witness's expertise is. These are more
16 operation questions and they are outside the scope
17 of Mr. Carlson's expertise and his testimony.

18 JUDGE JONES: Any response?

19 MR. FEELEY: Well, this witness in this
20 testimony talks about allocating these costs to
21 different customer classes, so.

22 MS. MOORE: But he is referring to shared

1 savings programs cost allocation. He is not
2 referring to metering cost allocation. There is a
3 difference there. I mean, hypothetically speaking,
4 you can ask the question but again he is familiar
5 with the shared savings costs, not the metering
6 costs.

7 MR. FEELEY: But this witness --

8 MS. MOORE: You need to establish that.

9 MR. FEELEY: I am sorry. This witness in his
10 testimony goes beyond shared savings when he makes
11 the statement concerning Mr. Smith's reasoning and
12 costs being allocated. It is not limited to just
13 shared savings costs.

14 JUDGE JONES: All right. Well --

15 MR. FEELEY: That's at page 4 of his
16 surrebuttal, line 61 through 63.

17 MS. MOORE: We are talking about general costs.
18 We are not talking about specific meter. If you
19 want to talk about costs in general, but again you
20 are asking for specifics. You want company rate
21 design meter specific costs here. Again, it goes
22 beyond the scope.

1 JUDGE JONES: Well, I think the point has been
2 argued. It is somewhat of a close call but I think
3 the line of questioning is appropriate. I believe
4 the witness has somewhat opened the door on this
5 line of questioning with his testimony as to
6 allocation of cost of service. So I believe the
7 questions are proper and the witness will be
8 expected to answer them to the extent that he is
9 able to do so. Now, whether there is one pending
10 right now, I am not completely sure.

11 MR. FEELEY: I will restate the last question I
12 think I asked.

13 Q. Do customers choose not to have meters attached
14 to their services?

15 A. I do not believe that the customers can choose
16 not to have meters attached to their services.

17 Q. Still on your surrebuttal, page 5, lines 81
18 through 83?

19 A. Yes.

20 Q. You state the following beginning at the end of
21 line 81: "Mr. Smith fails to give one example based
22 on record evidence where the fixed costs of the

1 Company increased because of the Company's shared
2 savings program." Do you see that testimony?

3 A. Yes, I do.

4 Q. Here is a hypothetical question. Is it correct
5 that if a fixed cost of a thousand dollars is
6 allocated equally among a hundred customers, then
7 the cost per customer would be \$10?

8 A. If it were allocated equally based on customer
9 count and not some other metric such as volume of
10 gas, then, yes, that would be correct.

11 Q. And then is it correct that if a fixed cost of
12 a thousand dollars is allocated equally over ten
13 customers, then the cost per customer would be a
14 hundred dollars?

15 A. Again, if the metric being used were a customer
16 count, not volume of gas or size of equipment, then,
17 yes, that would be correct.

18 Q. Just have a few more questions for you here.
19 If I can direct your attention to your surrebuttal
20 testimony still, page 3, lines 36 through 39?

21 A. Yes.

22 Q. You state there that, beginning at the middle

1 of line 36, "However, it is important for the
2 Commission to understand that South Beloit Water,
3 Gas and Electric has three customer rate classes and
4 each rate class contains shared savings
5 participants. Is that your testimony?

6 A. Yes, it is.

7 MR. FEELEY: Your Honor, if I can approach the
8 witness.

9 (Whereupon ICC Staff
10 Cross Exhibit 3-Carlson
11 was marked for purposes
12 of identification as of
13 this date.)

14 MR. FEELEY:

15 Q. Okay. Do you have in front of you what the
16 court reporter has marked for identification as
17 Staff Cross Exhibit 3-Carlson? It's a confidential
18 document which consists of three pages. It's a data
19 request TQS2.1 and the response by the Company?

20 A. Yes.

21 Q. I think I can ask you questions regarding this
22 without disclosing any confidential information, but

1 if you think you need to disclose information, then
2 let me know and we will have to take the appropriate
3 step.

4 In reference to your testimony, you talk
5 about three customer rate classes. What are the
6 three customer rate classes?

7 A. I believe that I have included the three gas
8 customer rate classes in the Exhibit JSO-6.

9 Q. Okay. So that's GG 1, 2 and 7?

10 A. That's correct. Those are the three natural
11 gas rate classes from which there were shared
12 savings participants.

13 Q. Okay. And other than -- can you kind of
14 describe each of those classes then by just GG, you
15 know, narrative description?

16 A. I believe that those are described in my
17 prefiled testimony or in my testimony. And if I may
18 just read from JSO-5, page 3 of 6 starting on line
19 41, SBWGE has a GG-1 customer class which consists
20 of residential and small commercial customers. It
21 also has a GG-2 customer class which consists of
22 large commercial and industrial customers who take

1 firm service. And a GG-7 class consisting of large
2 commercial and industrial customers who take
3 interruptible service.

4 Q. Now, what the court reporter has marked for
5 identification as Staff Cross Exhibit 3-Carlson is
6 the response TQS-2.1 which asks, "Provide a list of
7 customers of South Beloit Water, Gas and Electric
8 Company who have entered into contracts, whether all
9 obligations of the contract have been completed or
10 not with South Beloit, under the shared savings
11 program." Do you see that?

12 A. Yes.

13 Q. And attached to that is a list of participants
14 in the shared savings program, correct?

15 A. That is correct.

16 Q. If you can look through that list and just tell
17 me by number how many customers from the class, from
18 the residential class, show up on that confidential
19 column, just the number?

20 A. When you state the residential class, are you
21 referring to GG-1?

22 Q. Yes. Are there any GG-1 residential customers

1 listed on the response to Staff Data Request
2 TQS-2.1?

3 A. The GG-1 class includes both residential and
4 small commercial customers. However, I do not
5 believe that there is a residential customer listed
6 in TQS-2.1.

7 Q. And you don't believe that because you don't
8 see any identified there, correct?

9 A. That is correct.

10 MR. FEELEY: Your Honor, at this time I would
11 move to admit into evidence Staff Cross Exhibit
12 3-Carlson which is a confidential exhibit. It's
13 three pages and it is Company's response to Staff
14 Data Request TQS-2.1.

15 MS. MOORE: If I may, Your Honor, I just want
16 to ask one clarifying question to this so we can --
17 there is two things. I would like to ask a
18 clarifying question, and after that question I won't
19 object to it so long as the cross exhibit is
20 accorded confidential treatment.

21 JUDGE JONES: You have a question to ask of the
22 witness?

1 MS. MOORE: Just to clarify the record because
2 based on some earlier questions we came out with an
3 amount of customers in the gas program and I just
4 want to clarify because in looking at this there may
5 be a discrepancy. So I just want to make a
6 clarifying question about it.

7 JUDGE JONES: Are you finished with your
8 questions or do you have more questions?

9 MR. FEELEY: That's the end of my cross, I
10 guess subject to this clarification here.

11 JUDGE JONES: Well, I will hold off on any
12 ruling on the exhibit, but it sounds like we are
13 ready for redirect anyway. You were finished, did
14 you say, or you have more questions?

15 MR. FEELEY: I have no more cross for this
16 witness then.

17 JUDGE JONES: All right. So it will be time
18 for redirect. Do you have redirect for the witness?

19 MS. MOORE: Yes, I do. I will have redirect,
20 just a quick clarifying one, and then one about --

21 REDIRECT EXAMINATION

22 BY MS. MOORE:

1 Q. Mr. Carlson, Mr. Feeley asked you about an
2 administrative fee. Could you go ahead and define
3 again what you mean by an administrative fee?

4 A. The administrative fee is essentially the
5 interest that the customer pays as part of
6 participating in the shared savings program.

7 Q. And as Mr. -- or I am sorry, as Judge Jones has
8 asked you, asked Mr. Seitz, is the administrative
9 fee synonymous with interest?

10 A. It is.

11 Q. So you can use the two interchangeably?

12 A. That is correct.

13 Q. And does the administrative fee include
14 anything else other than interest?

15 A. No, it does not.

16 Q. All right. And then back to the Staff Cross
17 Exhibit, what is it, 3-Carlson, the list of customer
18 -- or let me back up. The shared savings program
19 for South Beloit includes what type of customers,
20 not customer classes, but what type of customers?

21 A. It would include customers that would be large
22 industrial.

1 Q. But do they use which type of services for
2 South Beloit, gas and electric?

3 A. They could use either gas or electric.

4 Q. So the shared savings program also includes
5 electric customers?

6 A. That is correct.

7 Q. And in this response, this data request
8 response, does this include gas customers
9 exclusively or is it a combination of gas and
10 electric or just electric?

11 A. It is a combination of gas and electric
12 customers.

13 MS. MOORE: All right. I have no further
14 questions or clarifications.

15 MR. FEELEY: I have no recross, and again would
16 ask that Staff Cross Exhibit 3-Carlson be admitted
17 into evidence.

18 JUDGE JONES: Any objection to that, the
19 admission of that exhibit?

20 MS. MOORE: No objection so long as it is
21 accorded confidential treatment.

22 JUDGE JONES: Let the record show that Staff

1 Cross Exhibit 3-Carlson is admitted into the
2 evidentiary record. It is a confidential
3 exhibit. (Whereupon
4 ICC Staff Cross Exhibit
5 3-Carlson was admitted
6 into evidence.)
7

8 EXAMINATION

9 BY JUDGE JONES:

10 Q. Mr. Carlson, were you present in the hearing
11 room today when I asked Mr. Seitz some questions
12 about the program, the shared savings program?

13 A. Yes, I was.

14 Q. If I were to ask you the same questions, would
15 your answers be the same?

16 A. Many of the responses that he gave relied on
17 specific accounting knowledge which I don't have
18 expertise to answer. In reference to the question
19 regarding the administrative fee, the administrative
20 fee is an interest cost that the participants pay as
21 part of participating in the program.

22 Q. You were asked some questions about JSO-6. Do

1 you have a copy of that in front of you?

2 A. Yes, I do.

3 Q. What's the total number of customers on there?

4 A. There is a total number of 14 natural gas
5 customers participating in the shared savings from
6 1998 to 2003.

7 Q. Above the chart there are the two dates,
8 1998-2003. Do you see that?

9 A. Yes, I do.

10 Q. What does that represent?

11 A. I believe it represents the dates at which the
12 contracts were signed.

13 Q. Does the list on JSO-6 include any contracts or
14 customers who signed contracts prior to 1998?

15 A. I do not believe that it does.

16 Q. Now, you were asked about Schedule C-3
17 sponsored by Mr. Seitz. Do you see the amount there
18 on line 51?

19 A. Yes, I do.

20 Q. Does that amount include costs associated with
21 any contracts entered into prior to 1998, if you
22 know?

1 A. I cannot answer that question with exact
2 certainty, and I would like to refer that to Mr.
3 Seitz.

4 Q. Regarding Staff Cross Exhibit 3-Carlson, do you
5 know how many of those contracts are with gas
6 customers as opposed to electric?

7 A. I do not know the exact number from the
8 exhibit. This exhibit represents both electric and
9 gas participants.

10 Q. Are the customers individual customers who
11 participate in both the electric and gas programs,
12 if you know?

13 A. Yes, I believe that is correct.

14 MS. MOORE: Your Honor, would you like a
15 Company late-filed exhibit that breaks down the
16 customers?

17 JUDGE JONES: We will sort of make a note of
18 that. I am not sure whether Staff has any thoughts
19 on that being put into the record or not.

20 MS. MOORE: Your Honor, apparently Staff
21 doesn't have an objection if you wanted us to take
22 this and break it down so we separate the gas from

1 the electric. We can just identify them. It would
2 be the same list, but in the empty column there we
3 can put electric or gas or both.

4 MR. FEELEY: I mean it is not necessary, but we
5 have no objection to that being done.

6 JUDGE JONES: So the Company would like leave
7 to do that, is that what you are suggesting?

8 MS. MOORE: If that would make -- just so he is
9 responsive to your question, if that would make it
10 easier, yes, we would request leave to do that.

11 JUDGE JONES: And Staff is agreeable to that
12 being filed?

13 MR. FEELEY: Yeah, if they want to go ahead and
14 identify electric and gas on Staff Cross Exhibit
15 3-Carlson, we have no objection to that.

16 JUDGE JONES: All right. Leave will be
17 provided to make that filing. We will have to
18 figure out what to call that since it is actually a
19 Staff cross exhibit and the Company is making the
20 marked up filing on that.

21 MS. MOORE: Would you want to make it a
22 late-filed exhibit for Mr. Carlson?

1 JUDGE JONES: We could probably make that
2 Company exhibit -- what are your three initials, Mr.
3 Carlson?

4 THE WITNESS: DKC.

5 JUDGE JONES: Company Exhibit DKC-1. Does that
6 work for the parties?

7 MS. MOORE: Yes, Your Honor.

8 JUDGE JONES: And how long do you propose to
9 have to do that, seven days?

10 MS. MOORE: Seven days, Your Honor.

11 JUDGE JONES: Is that agreeable to Staff?

12 MR. FEELEY: Yes, that's agreeable to Staff.

13 JUDGE JONES:

14 Q. Mr. Carlson, just so the record is clear, is it
15 your testimony that you are not sure at this time
16 whether the amount shown on line 51 in Mr. Seitz's
17 Schedule C-3 reflects costs associated with more
18 than just those customers listed on JSO-6?

19 A. I am not absolutely certain, Your Honor, no.

20 Q. So whether or not there are costs associated
21 with pre-1998 contracts is a question you are not
22 sure about?

1 A. I am not absolutely certain.

2 Q. Could you take a look at your direct testimony
3 of Jill Osterholz, page 8, please?

4 A. Yes.

5 Q. Do you have that in front of you?

6 A. Yes, I do.

7 Q. Line 5 makes reference to over 74,000 therms
8 savings annually. Do you see that language?

9 A. Line 5 of JO-1, page 8?

10 Q. Yes, sir. Let me read a little more of that
11 sentence. I am working off the original.

12 MS. MOORE: Your Honor, I think he may have a
13 different copy that puts -- he has a different
14 pagination than what you have, so let me just -- if
15 I may approach him and give him the original that
16 was filed I think that you are going off of so you
17 are on the same page.

18 JUDGE JONES: Sure, that's fine.

19 THE WITNESS: Yes, I have that in front of me.

20 JUDGE JONES:

21 Q. Do you see the language that I refer to?

22 A. Yes, I do.

1 Q. Maybe just so the record is a little more
2 clear, the sentence states in part, "Investments in
3 2000 and 2001 resulted in 1.2 million kwh savings
4 and over 74,000 therm savings annually after the
5 projects were implemented." With respect to the
6 portion of that answer that refers to over 74,000
7 therms saving annually, how was that value
8 determined?

9 A. These are engineering estimates that are
10 provided by Alliant Energy experts who work with the
11 customers and assess the potential savings from
12 these projects.

13 Q. Were those estimates made before the projects
14 were undertaken or at some point thereafter or both?
15 Let me back up a minute. At what point in the
16 process were those estimates made that were used in
17 arriving at the value of 74,000 therms?

18 A. Those are engineering estimates that would be
19 developed as part of the shared savings potential
20 evaluation.

21 Q. Would that precede the consummation of the
22 contracts?

1 A. I believe it would.

2 JUDGE JONES: That's all the questions I have
3 for the witness. Is there any follow-up questions
4 from the Company or staff?

5 MR. FEELEY: None for Staff.

6 MS. MOORE: None for the Company.

7 JUDGE JONES: All right. Thank you, sir. Off
8 the record regarding scheduling.

9 (Whereupon there was
10 then had an
11 off-the-record
12 discussion.)

13 JUDGE JONES: At this time the Company calls
14 Ms. Sonya Kessinger to the stand.

15 (Whereupon the Witness
16 was duly sworn by Judge
17 Jones.)

18 JUDGE JONES: Please be seated.

19 SONYA M. KESSINGER
20 called as a Witness on behalf of South Beloit Water,
21 Gas and Electric Company, having been first duly
22 sworn, was examined and testified as follows:

1 DIRECT EXAMINATION

2 BY MS. MOORE:

3 Q. Would you please state your name and business
4 address for the record.5 A. Yes, my name is Sonya M. Kessinger. My
6 business address is 4902 North Biltmore Lane,
7 Madison, Wisconsin, zipcode 53718.

8 Q. By whom are you employed and in what capacity?

9 A. I am employed by Alliant Energy Corporate
10 Services Incorporated and I am a Regulatory
11 Appraising Analyst.12 Q. And did you file testimony in these
13 consolidated rate cases?

14 A. Yes, I did.

15 Q. You caused to be filed the prefiled direct
16 testimony which has been marked as SMK-1 that was
17 filed on October 10 consisting of ten pages of
18 questions and answers and a corresponding exhibit
19 that has been marked as SMK-2 with Schedules E-1,
20 E-2 and E-3?

21 A. That's correct.

22 Q. And I believe you also had another Exhibit

1 SMK-3 that goes along with that direct testimony
2 which would consist of Schedules WPE-2, WPE-4 and
3 WPE-5?

4 A. That's correct.

5 Q. And you also filed rebuttal testimony on April
6 9 that has been identified as SMK-4, consisting of
7 seven pages. In that rebuttal testimony you also
8 had three exhibits filed which have been identified
9 as SMK-2.1, SMK-3.1 and SMK-5, is that correct?

10 A. Yes, that's correct.

11 Q. And then on e-Docket I believe there was
12 originally filed for your surrebuttal testimony it
13 was labeled SMK-5?

14 A. Uh-huh.

15 Q. Now, we have re-identified that exhibit for
16 clarification to read SMK-6?

17 A. That's right.

18 Q. And that consists of three pages of questions
19 and answers that was filed on May 12, 2004?

20 A. Yes.

21 Q. All right. Do you have any changes or -- any
22 changes to this testimony?

1 A. No.

2 Q. If I were to ask you the same questions that
3 are contained in these three pieces of testimony
4 along with the exhibits, would your answer be the
5 same?

6 A. Yes, it would.

7 MS. MOORE: Your Honor, at this time I would
8 offer into evidence the three testimonies, direct,
9 rebuttal and surrebuttal testimony of Sonya M.
10 Kessinger with the attached exhibits and schedules
11 which I have previously identified, and tender
12 Ms. Kessinger, well, subject to cross examination
13 and tender Ms. Kessinger for cross examination.

14 JUDGE JONES: Thank you. One question, the
15 surrebuttal testimony is SMK-6?

16 MS. MOORE: Correct, Your Honor, it has been
17 relabeled. It was filed as SMK-5 and we are
18 labeling it for clarification purposes as SMK-6.

19 JUDGE JONES: That has not been refiled as such
20 on e-Docket, but that's the plan?

21 MS. MOORE: Correct.

22 JUDGE JONES: To relabel that exhibit?

1 MS. MOORE: Correct.

2 JUDGE JONES: So it remains in consecutive
3 order.

4 MS. MOORE: Correct.

5 JUDGE JONES: Any objection to those exhibits
6 from Staff?

7 MR. FEELEY: No objection.

8 JUDGE JONES: All right. Let the record show
9 that the exhibits, including the testimony preceding
10 the exhibits offered and sponsored by Ms. Kessinger,
11 are admitted into the evidentiary record.
12 Specifically, that would include a filing made on
13 October 10, 2003, Company Exhibit SMK-1 and would
14 also include SMK-2 and SMK-3 as part of the
15 admission of SMK-1. As noted, those are admitted as
16 filed on October 10, 2003, and as appearing on
17 e-Docket as having been filed that day. Company
18 Exhibit SMK-4 is admitted as filed electronically on
19 April 9, 2004. Company Exhibit SMK-6 is admitted as
20 filed electronically on May 12, 2004, file number 7.

21 (Whereupon Company
22 Exhibits SMK-1, SMK-4,

1 and SMK-6 were admitted
2 into evidence.)

3 I think that covers Ms. Kessinger's
4 filings. Does Staff have any questions for
5 Ms. Kessinger?

6 MR. FEELEY: We have no cross examination for
7 Ms. Kessinger.

8 JUDGE JONES: That concludes the examination of
9 Ms. Kessinger. Thank you.

10 (Witness excused.)

11 MS. MOORE: Your Honor, procedurally I have
12 three copies of Ms. Kessinger's testimony that has
13 been relabeled. Do you want me to give that as
14 SMK-6 to the court reporter?

15 JUDGE JONES: Off the record on that.

16 (Whereupon there was
17 then had an
18 off-the-record
19 discussion.)

20 JUDGE JONES: Back on the record. There was an
21 off-the-record discussion for the purposes
22 indicated. I believe South Beloit is ready to

1 proceed with the offering of some additional
2 exhibits, is that correct?

3 MS. MOORE: Correct, Your Honor. The Company
4 has already filed on e-Docket the direct, rebuttal
5 and surrebuttal testimony of Lawrence J. White, and
6 now we have tendered into evidence the affidavits
7 affirming to his sworn testimony at this time which
8 have been marked as LJW-8, 9 and 10, those exhibits
9 making the testimonies that previously was filed his
10 sworn testimony.

11 JUDGE JONES: And so in total then you are
12 offering his direct testimony.

13 MS. MOORE: With corresponding exhibits, his
14 rebuttal testimony with corresponding exhibits, and
15 surrebuttal testimony with corresponding exhibits.

16 JUDGE JONES: And you are offering those as
17 they appear on the e-Docket system, is that correct?

18 MS. MOORE: Correct, Your Honor.

19 JUDGE JONES: Is there any objection from Staff
20 on that?

21 MR. FEELEY: No objection.

22 JUDGE JONES: Let the record show that those

1 exhibits sponsored by Mr. Lawrence White are
2 admitted. More specifically, the exhibits being
3 admitted were filed on three different dates.
4 Company Exhibit LJW-1 filed on October 15, 2003, is
5 admitted as it appears in the e-Docket records for
6 that day. That includes Mr. White's direct
7 testimony along with a number of attachments
8 thereto. The attachments appear as files 3, 4, 5
9 and 6 in the e-Docket records for that day. The
10 direct testimony of Mr. White is file number 2.
11 (Whereupon Company Exhibit LJW-1 was

12 admitted into
13 evidence.)

14 JUDGE JONES: Also Mr. White's rebuttal is
15 admitted as filed electronically on April 9, 2004.
16 The filing that day consisted of three files in the
17 e-Docket system, files 1, 2 and 3. And is it the
18 Company's request that all three of those files be
19 admitted as part of Company Exhibit LJW-4 and that
20 would include LJW-5, and then file number 3 says
21 Clean Tariffs - Water, so all those are being
22 offered as part of LJW-4, is that right?

1 MS. MOORE: That is correct, Your Honor.

2 JUDGE JONES: So let the record show that LJW
3 Company Exhibit LJW-4 is being admitted as it
4 appears on e-Docket April 9, 2004, consisting of
5 files 1, 2, 3, 4.

6 (Whereupon Company
7 Exhibit LJW-4 was
8 admitted into
9 evidence.)

10 JUDGE JONES: Also admitted is LJW-6 as it
11 appears on the e-Docket system with a filing date of
12 May 12, 2004. LJW-6 for purposes of being an
13 amended exhibit consists of file 3, file 4 and file
14 5 from the e-Docket record for that date. Anything
15 else on that? Okay. Then there is not.

16 (Whereupon Company
17 Exhibit LJW-6 was
18 admitted into
19 evidence.)

20 JUDGE JONES: Then the exhibits or the
21 affidavits are being offered as well, is that
22 correct?

1 MS. MOORE: Correct.

2 JUDGE JONES: Those are Company Exhibits LJW-8,
3 9 and 10.

4 MS. MOORE: Correct, Your Honor.

5 JUDGE JONES: All right. Let the record show
6 that Company Exhibits LJW-8, 9 and 10, consisting of
7 affidavits from Mr. White, are admitted into record
8 at this time.

9 (Whereupon Company
10 Exhibits LJW-8, 9 and
11 10 were marked and
12 admitted into
13 evidence.)

14 JUDGE JONES: Off the record regarding
15 scheduling.

16 (Whereupon there was
17 then had an
18 off-the-record
19 discussion.)

20 JUDGE JONES: Back on the record. Let the
21 record show we hereby break for lunch until 2:00
22 p.m.

(Whereupon the hearing
was in recess until
2:00 p.m.)

AFTERNOON SESSION

JUDGE JONES: Back on the record. It appears
that we are ready for the Staff witnesses, is that
the plan?

MR. FEELEY: That's correct. Our first witness
would be Bonita A. Pearce.

JUDGE JONES: Again, you can either sit at the
table or at the witness chair, whatever your
preference there. We will go ahead and swear you
in.

(Whereupon the Witness
was duly sworn by Judge
Jones.)

BONITA A. PEARCE

1 called as a Witness on behalf of Staff of the
2 Illinois Commerce Commission, having been first duly
3 sworn, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. FEELEY:

6 Q. Could you please state your name for the
7 record.

8 A. My name is Bonita A. Pearce.

9 Q. And by whom are you employed?

10 A. I am an accountant in the Accounting Department
11 of the Financial Analysis Division of the Illinois
12 Commerce Commission, located at 527 East Capitol
13 Avenue, Springfield, Illinois 62701.

14 Q. Ms. Pearce, do you have in front of you two
15 documents, the first of which has been marked for
16 identification as ICC Staff Exhibit 1.0, entitled
17 Direct Testimony of Bonita A. Pearce, consisting of
18 a cover page, 13 pages of narrative text and
19 attached schedules?

20 A. Yes, I do.

21 Q. Do you have a second document in front of you
22 entitled the Rebuttal Testimony of Bonita A. Pearce

1 that has been marked for identification as ICC Staff
2 Exhibit 8.0 and that consists of a cover page and
3 five pages of narrative text?

4 A. Yes.

5 Q. Were ICC Staff Exhibit 1.0 and 8.0 prepared by
6 you or under your direction, supervision and
7 control?

8 A. Yes.

9 Q. Do you have any deletions, additions or
10 modifications to make to ICC Staff Exhibit 1.0 and
11 8.0 and the attached schedules?

12 A. No.

13 Q. If I was to ask you today the same series of
14 questions set forth in ICC Staff Exhibit 1.0 and
15 8.0, would your answers be the same as set forth in
16 that document?

17 A. Yes.

18 MR. FEELEY: Your Honor, at this time I move to
19 admit into evidence two documents, the first being
20 what has been filed on e-Docket and is identified as
21 ICC Staff Exhibit 1.0, the direct testimony of
22 Bonita A. Pearce which consists of 13 pages of

1 narrative text and attached schedules respectively
2 for gas and water, and also move to admit into
3 evidence ICC Staff Exhibit 8.0, the rebuttal
4 testimony of Bonita A. Pearce which consists of a
5 cover page and five pages of narrative text.

6 JUDGE JONES: Are there any objections to that?

7 MS. MOORE: No, Your Honor.

8 JUDGE JONES: Let the record show that the
9 testimony and exhibits sponsored by Ms. Pearce are
10 admitted into the evidentiary record as they appear
11 on the e-Docket system. Staff Exhibit 1.0 was filed
12 March 10, 2004, and includes a number of schedules.
13 Staff Exhibit 8.0 was filed on April 28, 2004. Both
14 were filed electronically.

15 (Whereupon ICC Staff
16 Exhibits 1.0 and 8.0
17 were admitted into
18 evidence.)

19 JUDGE JONES: I believe at last report the
20 Company did have a couple questions for Ms. Pearce.
21 Is that still the case?

22 MS. MOORE: Yes, Your Honor. I just have two

1 or three quick questions.

2 JUDGE JONES: Go ahead with those, if you are
3 ready.

4 CROSS EXAMINATION

5 BY MS. MOORE:

6 Q. Good afternoon, Ms. Pearce. I am Jennifer
7 Moore, the attorney for South Beloit Water, Gas and
8 Electric Company. I just have a few quick questions
9 for you. In your direct testimony beginning on line
10 211 you go into the concerns you have regarding the
11 Company's contract with Wisconsin Power and Light?

12 A. Yes.

13 Q. And it is your understanding that the
14 Commission did approve that contract back on June
15 11, 1997, is that correct?

16 A. Yes.

17 Q. At that time do you know whether Staff made any
18 additions to that contract or modifications to that
19 contract?

20 A. I am not aware whether they did or not.

21 Q. And then in your rebuttal testimony on page 3,
22 you make a reference to, I believe -- I am sorry,

1 let me strike that. On page 4 beginning on line 85
2 you make a reference to an amended and restated
3 service agreement?

4 A. Yes.

5 Q. Was this agreement also approved by the
6 Commission?

7 A. No.

8 Q. Does the Company have a restated service
9 agreement for the public utility on record -- let me
10 strike that, contract agreement that was approved by
11 the Commission?

12 A. Yes.

13 Q. In which docket was that approved, do you know?

14 A. I think that was in Docket 00-0690.

15 Q. Now, are these two contracts for the same type
16 of services?

17 A. I believe so.

18 Q. So it is your testimony that these contracts
19 then --

20 A. Are you referring to the amended version versus
21 the one that's been approved or are you referring to
22 the gas?

1 Q. I am sorry, let me back up. I apologize. Is
2 the gas contract which you have concerns with the
3 same contract as the restated service agreement?
4 Are those contracts for the same services?

5 A. No.

6 Q. So they are separate and distinct contracts,
7 correct?

8 A. Yes.

9 Q. At least that's your understanding?

10 A. Yes.

11 MS. MOORE: Your Honor, I have no further
12 questions.

13 JUDGE JONES: Mr. Feeley, any redirect?

14 MR. FEELEY: No, I have no redirect.

15 JUDGE JONES: That concludes the questions for
16 Ms. Pearce. Thank you.

17 MR. FEELEY: Judge Jones, with respect to the
18 testimony of Burma C. Jones, I have an affidavit
19 filled out by her. It is my understanding that
20 there is no cross examination for the witness. I
21 have provided it to the Company; I will provide to
22 the court reporter Ms. Jones's

1 affidavit. (Whereupon ICC Staff
2 Exhibit 15.0 was marked
3 for purposes of
4 identification as of
5 this date.)

6 MR. FEELEY: The affidavit of Ms. Jones is
7 marked for identification as ICC Staff Exhibit 15.0,
8 one page of one, and the affidavit concerns her
9 prefiled testimony on the e-Docket system, ICC Staff
10 Exhibit 2.0, the direct testimony along with the
11 attached schedules, and ICC Staff Exhibit 13.0,
12 rebuttal testimony of Burma C. Jones.

13 JUDGE JONES: The affidavit is a hard copy
14 exhibit and the other two exhibits are being offered
15 as filed electronically, is that correct?

16 MR. FEELEY: That is correct.

17 JUDGE JONES: And those are being offered at
18 this time?

19 MR. FEELEY: Yes. At this time we would offer
20 into evidence Staff Exhibit 13.0 and 2.0 pursuant to
21 the affidavit of Ms. Jones.

22 JUDGE JONES: And you are offering the

1 affidavit along with that, is that right?

2 MR. FEELEY: Yes, and I identified that as
3 Staff Exhibit 15.0.

4 JUDGE JONES: Thank you. Any objection to
5 that?

6 MS. MOORE: No, Your Honor.

7 JUDGE JONES: Let the record show that those
8 exhibits sponsored by Ms. Burma C. Jones are
9 admitted into the evidentiary record. More
10 specifically, ICC Staff Exhibit 2.0, including
11 Schedules 2.1 through 2.5, is admitted as filed
12 electronically on March 10, 2004. ICC Staff Exhibit
13 13.0 is admitted as filed electronically on April
14 28, 2004. ICC Staff Exhibit 15.0, being a one-page
15 affidavit, is admitted as a hard copy
16 exhibit. (Whereupon
17 ICC Staff Exhibits 2.0,
18 13.0 and 15.0 were
19 admitted into
20 evidence.)

21 JUDGE JONES: Was there anything else with
22 respect to Ms. Jones's testimony? Okay.

1 Is Staff ready to proceed with its next
2 witness?

3 MR. FEELEY: Yes. At this time we would call
4 Cheri L. Harden.

5 (Whereupon the Witness
6 was duly sworn by Judge
7 Jones.)

8 JUDGE JONES: Thank you. And again the
9 witnesses can either sit at the end of the table or
10 in the witness box, whatever your pleasure.

11 CHERI L. HARDEN
12 called as a Witness on behalf of Staff of the
13 Illinois Commerce Commission, having been first duly
14 sworn, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. FEELEY:

17 Q. Could you please state your name for the
18 record.

19 A. Cheri L. Harden, H-A-R-D-E-N.

20 Q. And by whom are you employed?

21 A. The Illinois Commerce Commission.

22 Q. And what is your position with the Illinois

1 Commerce Commission?

2 A. I am a rate analyst.

3 Q. Ms. Harden, do you have in front of you two
4 documents, the first of which has been marked for
5 identification as ICC Staff Exhibit Number 5.0
6 entitled the Direct Testimony of Cheri L. Harden
7 which consists of 14 pages of narrative text and
8 attached schedules?

9 A. Yes.

10 Q. And do you have in front of you a second
11 document which has been marked for identification as
12 ICC Staff Exhibit Number 11.0, the Rebuttal
13 Testimony of Cheri L. Harden?

14 A. Yes.

15 Q. And that consists of three pages of narrative
16 text and attached schedules?

17 A. Yes, I do.

18 Q. Were ICC Staff Exhibit 5.0 and 11.0 prepared by
19 you or under your direction, supervision and
20 control?

21 A. Yes, they were.

22 Q. Do you have any additions, deletions or

1 modifications to make to ICC Staff Exhibit Numbers
2 5.0 and 11.0?

3 A. No, I do not.

4 Q. If I was to ask you today the same series of
5 questions set forth in ICC Staff Exhibit 5.0 and
6 11.0, would your answers be the same as set forth in
7 those documents?

8 A. Yes, they would.

9 MR. FEELEY: Your Honor, at this time we would
10 move to admit into evidence two documents, the first
11 of which has been marked for identification as ICC
12 Staff Exhibit Number 5.0 entitled the Direct
13 Testimony of Cheri L. Harden, and the second is
14 entitled Rebuttal Testimony of Cheri L. Harden, ICC
15 Staff Exhibit Number 11.0, along with the attached
16 schedules to both documents. I would note for the
17 record that I am only moving to admit with respect
18 to Ms. Harden's rebuttal testimony the copy that was
19 filed on the e-Docket system on or about May 4,
20 2004, which made some corrections from a previously
21 filed rebuttal testimony filed at an earlier date.

22 JUDGE JONES: Thank you. Any objection to

1 that?

2 MS. MOORE: No, Your Honor.

3 JUDGE JONES: Let the record show that the
4 testimony and exhibits sponsored by Ms. Harden are
5 admitted into the evidentiary record as filed
6 electronically on the e-Docket system. ICC Staff
7 Exhibit 5.0 which also includes a Schedule 5.1 is
8 admitted as filed on March 10, 2004. ICC Exhibit
9 11.0 which includes schedule 11.1 is admitted into
10 the record as filed electronically on May 4, 2004

11 (Whereupon ICC Staff
12 Exhibits 5.0 and 11.0
13 were admitted into
14 evidence.)

15 JUDGE JONES: Ms. Harden is available for cross
16 at this time, is that correct?

17 MR. FEELEY: Yep.

18 CROSS EXAMINATION

19 BY MS. MOORE:

20 Q. Good afternoon, Ms. Harden. I am Jennifer
21 Moore, the attorney for the Company. I just have a
22 few clarifying questions for you. Do you know

1 approximately how long ago it was when South Beloit
2 had its last gas and water rate case?

3 A. I may know that but I don't recall it off the
4 top of my head.

5 Q. An approximation is fine.

6 A. I want to say 1986 but I don't remember.

7 Q. So it's been in theory, you know, give or take,
8 it would be approximately 18 years since the Company
9 has been in?

10 A. Yes.

11 Q. It's been about 18 years where the rates have
12 been constant and there has been no alterations to
13 the rate design, is that correct?

14 A. I believe so.

15 Q. And then in your testimony, your direct
16 testimony on page 2, you state that you use a
17 revenue requirement provided by ICC witness Pearce?

18 A. Yes.

19 Q. Is that revenue requirement the same as what
20 the revenue requirement of -- let me rephrase that.
21 Is Ms. Pearce's revenue requirement identical or
22 similar to Mr. Seitz's revenue requirement for the

1 Company?

2 A. I don't recall how close their numbers were.

3 Q. Fair enough. But would you agree that there is
4 a difference between the amounts?

5 A. Yes, I believe there was.

6 Q. So that could, relatively speaking, that does
7 impact how much costs are allocated to each customer
8 class?

9 A. Yes.

10 Q. Because of the different revenue requirement
11 and the design?

12 A. Yes.

13 Q. So then in your -- and so I just want to make
14 sure, in your rebuttal testimony that you also go
15 into on page 3, the differences between that revenue
16 requirement, I believe, you know, you say there on
17 line 54 if the Commission adopts a revenue
18 requirement which differs from Staff's, is it your
19 testimony then that you would just go ahead and
20 apply, for example, if the revenue requirement was
21 \$50,000 more than Staff, it is your testimony that
22 \$25,000 would be applied to the G-1 class or

1 allocated to the G-1 class and then \$25,000 would
2 be -- this is hypothetically speaking -- be applied
3 to the G-7 class?

4 A. Yes.

5 Q. So that's your intent with that sentence?

6 A. Yes.

7 MS. MOORE: Your Honor, I have no further
8 questions.

9 JUDGE JONES: Is there any redirect?

10 MR. FEELEY: I have no redirect.

11 JUDGE JONES: Just one moment here. Ms.
12 Reporter, read back that last question and answer.

13 (Whereupon the
14 requested portion was
15 then read back by the
16 Reporter.)

17 EXAMINATION

18 BY JUDGE JONES:

19 Q. Ms. Harden, I guess just to follow up on that
20 for a minute, you have a copy of Schedule 11.1 there
21 in front of you?

22 A. Yes.

1 Q. Now, the column Staff Proposed Rates, does that
2 show total GG-1 revenues as 2,088,479?

3 A. Yes.

4 Q. And then under the example you would assign
5 \$25,000 to that class?

6 A. It's in my response. If you were to change the
7 revenue requirement, we recommend that you would
8 apply the change equally to the rates, the rates
9 that I have changed, the GG-1 and the GG-7.

10 Q. I am just trying to follow up on the answer to
11 that, that you gave to the question on cross. Is it
12 your answer that \$25,000 would be added to the
13 revenue total under Staff proposed rates?

14 A. Yes.

15 Q. And the other \$25,000 would be applied where?

16 A. The first 25 would be to the total GG-1 that
17 you read to me and the second 25 would be to the
18 total GG-7 which is labeled on there as
19 interruptible service. Those are the only two
20 rates, rate classes, that I adjusted in this case.

21 Q. Still referring to the Staff Proposed Rates
22 column, is the revenue total there for rate GG-7

1 \$318,116?

2 A. Yes.

3 Q. And the GG-1 is approximately \$2.1 million?

4 A. Yes.

5 Q. But you are saying that you would apply \$25,000
6 to each?

7 A. Yes, whatever the difference is we generally
8 recommend applying them equally.

9 JUDGE JONES: That's the only questions I have.

10 Does Staff have any follow up on that?

11 MR. FEELEY: No.

12 JUDGE JONES: Does the Company have any more?

13 MS. MOORE: No, Your Honor.

14 JUDGE JONES: Thank you, Ms. Harden.

15 (Witness excused.)

16 JUDGE JONES: It looks like Mr. Marr is next,
17 is that correct?

18 MR. FEELEY: Yes.

19 (Whereupon the Witness
20 was duly sworn by Judge
21 Jones.)

22 WILLIAM D. MARR

1 called as a Witness on behalf of Staff of the
2 Illinois Commerce Commission, having been first duly
3 sworn, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. FEELEY:

6 Q. Please state your name for the record.

7 A. William D. Marr, M-A-R-R.

8 Q. And by whom are you employed?

9 A. Illinois Commerce Commission.

10 Q. And what is your position with the Illinois
11 Commerce Commission?

12 A. Water engineer.

13 Q. Mr. Marr, do you have in front of you two
14 documents, the first which is marked for
15 identification as ICC Staff Exhibit 6.0 entitled the
16 Direct Testimony of William D. Marr, Water Engineer,
17 consists of a cover page and 13 pages of narrative
18 text?

19 A. Yes.

20 Q. And do you have in front of you a second
21 document that's marked for identification as ICC
22 Staff Exhibit 12.0 entitled the Rebuttal Testimony

1 of William D. Marr, Water Engineer, that consists of
2 a cover page and seven pages of narrative text?

3 A. Yes.

4 Q. Were ICC Staff Exhibit 6.0 and 12.0 prepared by
5 you or under your direction and supervision and
6 control?

7 A. Yes.

8 Q. Do you have any deletions, additions or
9 modifications to make to ICC Staff Exhibit 6.0 or
10 12.0?

11 A. No.

12 Q. If I was to ask you today the same series of
13 questions set forth in ICC Staff Exhibit 6.0 and
14 12.0, would your answers be the same as set forth in
15 those documents?

16 A. Yes.

17 MR. FEELEY: Your Honor, at this time I would
18 move to admit into evidence ICC Staff Exhibit 6.0,
19 the Direct Testimony of William D. Marr and ICC
20 Staff Exhibit 12.0, the Rebuttal Testimony of
21 Mr. William D. Marr.

22 JUDGE JONES: Thank you. Is there any

1 objection to that?

2 MS. MOORE: No, Your Honor.

3 JUDGE JONES: Mr. Marr's testimony is admitted
4 into the evidentiary record as filed electronically
5 on the e-Docket system. Accordingly, ICC Staff
6 Exhibit 6.0 is admitted as filed on March 10,

7 2004, and ICC Staff Exhibit 12.0 is
8 admitted as filed electronically on April 28, 2004.

9 (Whereupon ICC Staff
10 Exhibits 6.0 and 12.0
11 were admitted into
12 evidence.)

13 JUDGE JONES: Mr. Marr, I really just have one
14 question for you. At the present time are there
15 any -- with respect to any of the issues that you
16 address in your testimony, are any of those in
17 dispute as between Staff and the Company?

18 THE WITNESS: No, there is not.

19 JUDGE JONES: That's all I have. Any follow-up
20 on that?

21 MR. FEELEY: No.

22 JUDGE JONES: Thank you.

1 (Witness excused.)

2 JUDGE JONES: Did you want to offer
3 Mr. Lounsberry's testimony next?

4 MR. FEELEY: Your Honor, I am going to provide
5 to the court reporter an affidavit of Mr. Lounsberry
6 which has been marked for identification as ICC
7 Staff Exhibit 14 .0, page 1 of 1.

8 (Whereupon ICC Staff
9 Exhibit 14.0 was marked
10 for purposes of
11 identification as of
12 this date.)

13 MR. FEELEY: ICC Staff Exhibit 14.0 is the
14 affidavit of Eric Lounsberry regarding his
15 previously filed direct testimony which has been
16 marked for identification as ICC Staff Exhibit 7.0,
17 the Direct Testimony of Eric Lounsberry along with
18 attached schedules, and it consists of eight pages
19 of narrative text. At this time I would offer into
20 evidence ICC Staff Exhibit 7.0, Direct Testimony of
21 Eric Lounsberry and Mr. Lounsberry's affidavit which
22 has been marked for identification as ICC Staff

1 Exhibit 14.0.

2 JUDGE JONES: Are there any objections to
3 admitting those exhibits?

4 MS. MOORE: No, Your Honor.

5 JUDGE JONES: Let the record show that ICC
6 Staff Exhibit 7.0, including Schedules 7.1 through
7 7.8, is admitted into evidence as filed
8 electronically on March 10, 2004.

9 Also ICC Staff Exhibit 14.0 consisting of a
10 one-page affidavit from Mr. Lounsberry is admitted
11 into the evidentiary record at this time. 14.0 is a
12 hard copy exhibit.

13 (Whereupon ICC Staff
14 Exhibits 7.0 and 14.0
15 were admitted into
16 evidence.)

17 JUDGE JONES: Who is next?

18 MR. FEELEY: Next up is Janis Freetly.

19 (Whereupon the Witness
20 was duly sworn by Judge
21 Jones.)

22 JANIS FREETLY

1 called as a Witness on behalf of the Staff of the
2 Illinois Commerce Commission, having been first duly
3 sworn, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. FEELEY:

6 Q. Could you please state your name for the
7 record.

8 A. My name is Janis Freetly.

9 Q. And by whom are you employed?

10 A. I am employed by the Illinois Commerce
11 Commission.

12 Q. And what's your position with the Illinois
13 Commerce Commission?

14 A. I am a Senior Financial Analyst.

15 Q. Ms. Freetly, do you have in front of you two
16 documents, the first of which has been marked for
17 identification as ICC Staff Exhibit Number 4.0? It
18 is entitled the Direct Testimony of Janis Freetly.
19 It consists of 35 pages of narrative text, along
20 with attached schedules?

21 A. Yes.

22 Q. Do you have in front of you a second document

1 that's been marked for identification as ICC Staff
2 Exhibit Number 10.0 entitled the Rebuttal Testimony
3 of Janis Freetly? It consists of a cover page and
4 15 pages of narrative text, along with one single
5 schedule?

6 A. Yes.

7 Q. Were ICC Staff Exhibit Numbers 4.0 and 10.0 and
8 attached schedules prepared by you or under your
9 direction, supervision and control?

10 A. Yes, they were prepared by me.

11 Q. Do you have any deletions, additions or
12 modifications to make to ICC Staff Exhibit Number
13 4.0 and 10.0?

14 A. No, I do not.

15 Q. If I was to ask you today the same series of
16 questions set forth in ICC Staff Exhibit Number 4.0
17 and 10.0, would your answers be the same as set
18 forth in those documents?

19 A. Yes.

20 MR. FEELEY: Your Honor, at this time I move
21 into evidence ICC Staff Exhibit Number 4.0, the
22 Direct Testimony of Janis Freetly along with

1 attached schedules, and ICC Staff Exhibit Number
2 10.0, the rebuttal testimony of Janis Freetly along
3 with an attached schedule.

4 JUDGE JONES: Is there any objection to that?

5 MS. MOORE: No, Your Honor.

6 JUDGE JONES: Let the record show those
7 exhibits sponsored by Ms. Freetly are admitted into
8 the evidentiary record. More specifically, ICC
9 Staff Exhibit 4.0 which includes Schedules 4.1
10 through 4.10 is admitted as filed on March 10, 2004.

11 Also ICC Staff Exhibit 10.0, including
12 Schedule 10.1 is admitted into the record as filed
13 electronically on April 28, 2004.

14 (Whereupon ICC Staff
15 Exhibits 4.0 and 10.0
16 were admitted into
17 evidence.)

18 JUDGE JONES: Ms. Moore, I believe you have
19 some questions for the witness, is that correct?

20 MS. MOORE: Yes, I do, Your Honor.

21 CROSS EXAMINATION

22 BY MS. MOORE:

1 Q. Good afternoon, Ms. Freetly. I am Jennifer
2 Moore. I am the attorney for South Beloit Water,
3 Gas and Electric Company. I have a couple
4 questions.

5 Can you take your direct testimony,
6 beginning on page 2, you talk about the cost of
7 capital. And there you have what you summarized
8 your cost of capital findings for South Beloit
9 Water, Gas and Electric there on lines 20 and 21. I
10 believe you also refer to Schedule 4.01 which goes
11 into the weighted cost of capital for the gas and
12 water operations. When you were doing your cost of
13 capital findings, did you include any of the
14 components of that capital structure from the parent
15 company Alliant Energy Corporation or is this
16 strictly a cost of capital for South Beloit Water,
17 Gas and Electric?

18 A. This is the cost of capital for South Beloit
19 Water, Gas and Electric for the gas and water
20 operations, respectively. But the capital structure
21 I relied on was that of Wisconsin Power and Light.

22 Q. Correct. But in your cost of capital you

1 didn't factor in any of the parent company's, the
2 parent company being Alliant Energy, cost of capital
3 into that, these estimates, did you?

4 A. No.

5 Q. And then on page 3 you discuss the capital
6 structure and then I believe you go into on page 4
7 explaining why you used Wisconsin Power and Light.
8 Now, then beginning on page -- or I am sorry, line
9 53, are you recommending the same capital structure
10 as the Company did in its testimony through Martin
11 Seitz?

12 A. I don't believe so.

13 Q. So this is an adjusted capital structure from
14 what the Company was proposing?

15 A. From the Company's proposal, yes.

16 Q. And so you believe that this capital structure
17 is the proper capital structure for South Beloit for
18 Wisconsin Power and Light as a stand-alone utility,
19 correct?

20 A. Correct.

21 Q. And the company has not disputed that fact?

22 A. Correct.

1 Q. All right. Now, on page 7 you go into part of
2 the Q and A of explaining how the capital structure
3 affects the overall cost of capital. Now, on page
4 7, line 114, there you state that Standard and
5 Poor's categorize debt securities on the basis of
6 risk that a company will default on its
7 interest-principal payment obligation and then you
8 go on to say that these credit ratings reflect both
9 the operating and financial versus the standard
10 utility. How is the credit rating linked to the
11 operating risks of a utility? Let me back up. Let
12 me ask you this question. What is -- could you
13 define for me what a credit rating is and what does
14 that encompass?

15 A. Well, a credit rating from Standard & Poor's
16 basically reflects Standard and Poor's assessment of
17 the overall credit worthiness of a company.

18 Q. So would that be related to the probability of
19 default on a debt, on the Company's debt?

20 A. Yes.

21 Q. And is the credit rating linked to the
22 financial risk of the company?

1 A. Yes.

2 Q. Is it also related or linked to the operating
3 of the facility?

4 A. In assigning a credit rating Standard & Poor's
5 examines a number of factors.

6 Q. What are those factors?

7 A. Well, it examines a number of things, all the
8 business risk of the company, including
9 characteristics of the industries, its competitive
10 position, management, as well as looking at the
11 financial risk of the company, including financial
12 characteristics, their financial policy, the capital
13 structure, cash flow measures, the financial
14 flexibility.

15 Q. Okay. And that all goes into the credit
16 rating; those are factors that go into the credit
17 rating?

18 A. Yes, those are factors considered by the
19 analysts at Standard & Poor's in assigning a credit
20 rating.

21 Q. But Standard & Poor's also comes out with a
22 business profile score?

1 A. Correct.

2 Q. What goes into a business profile score?

3 A. The business profile score basically reflects
4 the business risk of a utility.

5 Q. And what are those types of business risks that
6 Standard & Poor's are examining? I mean, do they
7 list specific factors that they consider?

8 A. The business risk basically reflects any
9 equal -- it's a qualitative assessment of the risk
10 the Company is supposed to have based on the line of
11 business that it is.

12 Q. That line of business, would that be, for
13 example, the operating risk of the utility, the
14 industry characteristics, competitive position and
15 the management as well?

16 A. That is part of it.

17 (Whereupon the proceedings are now
18 being stenographically reported by
19 Laurel Patkes.)

20 Q. But you also said those were the same type of
21 characteristics in the credit rating?

22 A. Right.

1 Q. Are they interrelated or are they separate?

2 Are they interrelated?

3 A. They are interrelated.

4 Q. But they're not synonymous with each other?

5 A. No.

6 Q. Are they used in conjunction with each other?

7 I mean, is it an and/or or is it --

8 A. No. The business profile is just an additional
9 risk measure that goes beyond the credit rating
10 that would be more specific as to what lines of
11 business a utility is engaged in.

12 If they're engaged in a lot of
13 nonregulated activities, well, then that would
14 impact the business profile score. So it's more
15 specific to the operations of the company.

16 Q. Then let me ask you this.

17 On your sample selections beginning for
18 your proxy group I believe for your DCF model, you
19 selected companies with a business profile score of
20 3, is that correct?

21 A. Which sample are you referring to?

22 Q. It would be the gas -- let's start with the gas

1 sample.

2 MR. FEELEY: Do you have a page reference?

3 MS. MOORE: Page 13 she begins her sample
4 selection.

5 A. The gas sample consisted of companies with
6 business profile scores of 2, 3, or 4.

7 Q. I stand corrected.

8 But in your Schedule 4.10, they average
9 out to be business profile 3?

10 A. Correct.

11 Q. All right. So what is the business profile for
12 WPL?

13 A. 4.

14 Q. And is that a stand-alone business profile
15 separate from its parent company?

16 A. Yes.

17 Q. So would you agree with me that that business
18 profile is looking at the operating risks of running
19 just Wisconsin Power and Light Utility separate and
20 distinct from any nonregulated affiliate?

21 A. Yes.

22 Q. Let me back up and let's take this a step at a

1 time so I understand this.

2 In the gas sample, and you begin to list
3 your companies there on Line 207, for AGL Resources,
4 since your exhibit here rolls them up into an
5 average, I'm wondering what is the credit rating for
6 AGL Resources?

7 A. AGL is rated A- by Standard & Poor's.

8 Q. And what is its business profile?

9 A. 3.

10 Q. And for Atmos Energy, what is the credit
11 rating?

12 A. Atmos is rated A-.

13 Q. And its business profile?

14 A. With a business profile of 4.

15 Q. And for Laclede Group?

16 A. Laclede Group is rated A- with a business
17 profile of 3.

18 Q. And New Jersey Resources?

19 A. New Jersey Resources is rated A+ with a
20 business profile of 2.

21 Nicor Inc. is rated AA with a business
22 profile of 3.

1 Northwest Natural Gas is rated A with a
2 business profile of 3.

3 Peoples Energy is rated A- with a business
4 profile of 4.

5 Piedmont Natural Gas is rated A with a
6 business profile of 3.

7 And WGL Holdings is rated AA- with a
8 business profile of 3 according to Standard &
9 Poor's.

10 Q. Okay. And there on Page 14, can you do the
11 same for the water companies, give me their business
12 profile and credit rating beginning with American
13 States Water Company?

14 A. Not all of the water utilities in my sample are
15 rated, but I will give you the information that I
16 have.

17 American States Water is rated A+ with a
18 business profile of 3.

19 California Water Service Group is rated A+
20 with a business profile of 3.

21 Middlesex Water is rated A with a business
22 profile of 3.

1 Q. And so from those three is how you derived
2 your average in your Schedule 4.10?

3 A. Yes.

4 Q. So those are the companies that you use in
5 those two proxies?

6 A. Correct. Well, that wasn't all of my water
7 sample. As I said, they're not all rated.

8 Q. Well, those that had ratings, correct?

9 A. Right.

10 Q. The rest are listed there on Page 14?

11 A. Correct.

12 Q. Okay. Then I have a couple questions about the
13 formula that you used.

14 You have $(1 + k)$ raised to the power of
15 $1 - \{x + 0.25(q - 1)\}$.

16 What is the valuation? What does that
17 mean?

18 MR. FEELEY: Do you have a page reference
19 there?

20 MS. MOORE: Yeah. I'm sorry. It's Page 16,
21 Line 252.

22 A. What does the equation mean?

1 Q. Yes. What is the valuation? I mean, what
2 exactly are those components? You have
3 $\{x + 0.25(q - 1)\}$. What specifically does that
4 mean?

5 I think the technical term is that
6 expression.

7 MR. FEELEY: I'm sorry. Just a point of
8 clarification.

9 You want her to identify what's in the
10 brackets, that formula, or the whole formula itself?

11 MS. MOORE: Well, the whole formula -- no.

12 Q. You have a valuation, an expression, $(1 + k)$,
13 and then it's multiplied by this other factor.

14 I'm just trying to figure out how you
15 define that.

16 A. Well, the $1 + k$ raised to the power of
17 $1 - \{x + 0.25(q - 1)\}$ is the future value interest
18 factor.

19 Q. And what function does that have in your
20 equation?

21 A. Well, it measures the rate of return that a
22 dividend received in quarter "q" will earn if it's

1 reinvested for this period.

2 Part of the equation you're referring to
3 represents basically the period of time that that
4 dividend will earn a rate of return.

5 Q. Okay. So then that means X equals the elapsed
6 time between the stock observation and first
7 dividend payment date in years?

8 A. Yes.

9 Q. That's the definition.

10 What's your time frame? When you put in
11 your X factor in your DCF model, what time frame
12 were you using? What was the elapsed time? What
13 were the...

14 Let me take that one step at a time.

15 What was the elapsed time that you used?

16 A. Well, I'm using a quarterly model, so it would
17 be for a quarter.

18 Q. But for those dividend payments -- I think on
19 your schedule -- were those dividend payments for
20 the year 2000, 2001, 2002?

21 A. Well, the dividends presented on Schedules 4.06
22 gas and water are the current dividends, so they

1 would have been the last four dividends paid before
2 this stock price date which was the 3rd of February
3 of this year.

4 Q. So it would be the 2003 dividends?

5 A. Yes.

6 Q. So what that does is -- then I guess what
7 you're telling me there is that that X factor kind
8 of accounts for the difference between the stock
9 price and the quarterly dividends?

10 I'm trying to figure out... Is that an
11 accurate representation or is that just --

12 A. Could you repeat what you said, please?

13 Q. Okay. You say it's elapsed time between the
14 stock observation.

15 That stock observation would be the price
16 of the stock on a date certain?

17 A. Correct.

18 Q. Okay. And then the dividend... Maybe this
19 will make it easier.

20 So if we had a stock price observed today
21 on May 17th, let's just say that the first dividend
22 payments were paid, you know, to make this easy, on

1 October 17th, are you saying that the elapsed time
2 is the difference between October 17th and May 17th?

3 A. Yes.

4 Q. And why would you put that in the formula? Why
5 would you want to account for those changes in
6 elapsed time?

7 A. Well, it's an attempt to account for the time
8 value of money.

9 Q. Okay. And then your G is an expected growth
10 dividend rate?

11 A. Yes.

12 Q. So what you're trying to measure there is the
13 expected growth obviously?

14 A. Correct.

15 Q. But does the date you start with that expected
16 growth and move forward impact how your valuation or
17 estimates will come out?

18 For example, if you would have used a
19 different expected dividend growth rate or, let's
20 just say for hypothetical sake, instead of
21 March 10th, you know, when you completed your
22 testimony, if you would have used this model back

1 say in June of 2003, would your cost of equity
2 estimates change?

3 A. Most likely.

4 Q. Because your assumptions have changed?

5 A. Correct.

6 Q. So your model relies on the assumptions that
7 you have made?

8 A. Yes.

9 Q. So all these little -- I'm sorry. I'm not a
10 finance major, but your definitions here and all
11 this information are really just assumptions that
12 you're making that goes into this model?

13 A. Yes.

14 Q. And those assumptions can change over time?

15 A. Correct. The inputs themselves will change.

16 Q. So it's not necessarily static?

17 A. Correct.

18 Q. I think I just want to ask a couple clarifying
19 questions and then we'll move on to your rebuttal
20 testimony.

21 In your direct testimony on Page 20, you
22 begin to describe the risk premium model.

1 A. Yes.

2 Q. And then I believe you go into what you call --
3 you define there what a beta is -- the measure of
4 market risk for security. That's on Page 21
5 beginning on Line 344.

6 A. Well, I define the term in the equation
7 presented on Line 344.

8 Q. So you refer to that as beta?

9 A. Correct.

10 Q. And beta measures the market risk for security
11 for a specific company?

12 A. Yes.

13 Q. So if you wanted to form a proxy sample group
14 to establish South Beloit's, or in this case maybe
15 WPL's, cost of equity and the financial leverage
16 varied from company to company, would the beta value
17 be comparable? I mean, are beta values comparable
18 between companies?

19 A. Yes.

20 Q. All right. Let me phrase it this way.

21 If in each of those companies their
22 financial leverage varied, Company A and Company B,

1 they do not have the same financial leverage, in
2 your model there, would the beta value be
3 comparable?

4 A. Yes. Beta is a measure of basically the
5 relationship between a security and the market.

6 Q. Even if the company's debt leverage and
7 financial leverage differs, you can use a universal
8 beta in your sample?

9 A. Well, you would use the beta of the sample.

10 Q. So in your model, you didn't make any
11 adjustments for any financial risk differences
12 between the companies and your proxy sample?

13 A. No.

14 Q. So you're beta'ing as an account the financial
15 leverage amongst the companies in your proxy sample,
16 correct?

17 A. Correct.

18 Q. So we have here that you used the DCFS single
19 phase model and the capital asset pricing model.

20 Would you agree that the objective in
21 using those two models is to estimate the market
22 required cost of equity?

1 A. Yes.

2 Q. If you were given a new analytical model that
3 gave you better insight into the market required
4 cost of equity, would you use it?

5 A. If there was a model that provided a better
6 estimate of the investor-required rate of return, I
7 would certainly consider it in my analysis.

8 Q. You'd consider it but not necessarily use it?

9 A. Well, depending on the model and whether or not
10 I deemed it to accurately measure the
11 investor-required rate of return.

12 Q. Okay. Conversely, if an accepted model is out
13 there and it may distort your insight into the
14 required cost of equity, would you explicitly
15 recognize any distortions it may create?

16 MR. FEELEY: I'm sorry. Could you ask the
17 question again?

18 Q. The question is, if an accepted model,
19 financial model or a model for creating market
20 required cost of equity was used and it distorted
21 your insight into the required cost of equity, would
22 you explicitly recognize any such distortion?

1 A. Yes.

2 Q. I think we are ready to move on to your
3 rebuttal testimony.

4 Okay. Let me direct your attention to
5 Page 11 beginning on Line 186 where you discuss
6 asset book values.

7 Is it your contention that book value is
8 irrelevant to estimate the investors' expectations
9 and required return on capital?

10 MR. FEELEY: I'll object to that question. I
11 think it's a compound question.

12 Maybe you want to break that up in two
13 parts.

14 MS. MOORE: All right. Let me rephrase that.

15 Q. Would it be your contention that book value is
16 irrelevant to estimate the investors' expectations
17 when they're evaluating whether or not to purchase
18 stock?

19 A. Well, investors would be more concerned with
20 the market value.

21 Q. Okay. So would they also, would investors also
22 use the book value for their required return on

1 capital?

2 A. No.

3 Q. Does the market take note of a company's
4 book-to-market ratio or would an investor?

5 A. Yes.

6 Q. Are regulatory rate recovery decisions based on
7 utility company accounting records as opposed to its
8 market evaluations?

9 A. Yes.

10 Q. Is it reasonable for an investor seeking to
11 model a utility company's financial projections to
12 take note of its accounting records in estimating
13 its future expected cash flow?

14 A. It's reasonable that an investor may look at
15 that.

16 Q. I'm going to please direct your attention to
17 Page 12.

18 On Line 198, you're talking about
19 historical risk premiums and their use.

20 Is it your testimony there that investors
21 totally ignore the past in framing their
22 expectations of the market?

1 A. No.

2 Q. Then how would investors go about establishing
3 parameters for their expectations?

4 A. Well, it's reasonable to assume that investors
5 would look at historical data, but they would use
6 that as kind of their baseline and then evaluate
7 current issues that may impact that stock in forming
8 their expectations for the future.

9 Q. So then in that example that you gave in terms
10 of market valuations, if you were trying to decide
11 whether or not the valuation of the market is
12 exceptionally high or exceptionally low, would you
13 go about looking at past historical information for
14 a baseline?

15 A. Well, historical data will certainly give you a
16 view of what has happened in the past.

17 Q. So would you agree that in the past that
18 mortgage rates have been traditionally around the
19 eight to nine percent range prior to -- well, let me
20 rephrase that.

21 Hypothetically, if you purchased a home
22 say ten years ago at an interest rate of 8%, based

1 on the current market today, would you have
2 refinanced your home?

3 A. Yes.

4 Q. So would you agree that home mortgage
5 refinancing volumes seem high recently because of
6 the lower rate?

7 A. Has the rate of home mortgage refinancing been
8 high currently? Was that the question?

9 Q. The mortgage refinancing volume, meaning people
10 going in to refinance their homes, has that been
11 pretty strong lately?

12 A. Yes.

13 Q. What's the general conventional wisdom out
14 there as to why this trend is happening?

15 I mean, could it be because of the
16 perception that there are historically low interest
17 rates today, interest rates on home mortgages, as
18 compared to the past?

19 MR. FEELEY: I guess I have a question or
20 clarification.

21 Are you asking about a single homeowner or
22 homeowners in general? I'm not sure if the question

1 is real clear.

2 MS. MOORE: Either way. I guess this line of
3 questioning, her initial line of questioning was for
4 a single homeowner and now homeowners in general who
5 have purchased a home in the past ten years and have
6 come in for refinancing.

7 MR. FEELEY: And you're assuming that all of
8 them had their loan at a rate of eight percent?

9 MS. MOORE: No. Let me strike that question
10 and rephrase it.

11 Q. In your scenario, if you bought your home at a
12 higher rate ten years ago and now there's a lower
13 rate and you went in to refinance it, is the
14 incentive to refinance based on the perception that
15 there's historically low interest rates now?

16 A. Well, one would refinance their home in order
17 to get a lower interest rate, yes.

18 Q. But you have to use your past interest rate as
19 a benchmark?

20 A. Correct. If the current interest rate
21 available is lower than the past interest rate that
22 you got on your mortgage when you financed your

1 house, then there would be a move to refinance.

2 Q. Okay. Fair enough.

3 Are you familiar with the use of earnings
4 per share in the valuation of a particular stock?

5 A. Yes.

6 Q. To your knowledge, is earnings per share purely
7 forward looking?

8 A. No.

9 Q. So you'd agree that historical earnings per
10 share are examined and analyzed over a historical
11 period in the past or based on historical data?

12 Let me rephrase that.

13 Are historical earnings per share ever
14 examined and then analyzed?

15 A. Certainly.

16 Q. On Page 10 -- I'm sorry. I'm going to go back
17 to your direct testimony.

18 On Page 10, Lines 186 -- I'm sorry. We're
19 still on your -- let me back up and let's refer back
20 to your rebuttal testimony. I'm sorry.

21 On Page 13 through 15 of your rebuttal
22 testimony, you go in to explain about the terminal

1 growth rates in the DCF analysis.

2 If you're going to use a sustainable
3 growth rate model -- let me back up.

4 Instead of talking about a terminal growth
5 rate, let's talk about a sustainable growth rate
6 model.

7 According to the sustainable growth rate
8 model, would an increase in a dividend payout ratio
9 lead to a decrease in growth?

10 A. Yes.

11 Q. Okay. Let me take a market example, and using
12 Microsoft, would you agree that Microsoft has
13 enjoyed high growth rates and have not paid out?
14 Would you agree that they have enjoyed a high growth
15 rate?

16 A. I'm not certain what the growth rate Microsoft
17 has enjoyed, has earned. I'm not sure.

18 Q. Are you aware -- has Microsoft paid out a
19 dividend?

20 A. I don't know.

21 Q. You're not aware or familiar with that stock?

22 A. No, I'm not.

1 Q. Or with tech stocks in general.

2 Let me put it this way. Do all stocks pay
3 out dividends?

4 A. No.

5 Q. For those stocks that don't pay out dividends,
6 do they experience -- then is it your contention
7 that they don't experience any growth?

8 A. No.

9 Q. Would the growth model, back to the sustainable
10 growth model, would the growth model predict that
11 the payment of dividends by -- okay. Let me back up
12 the question.

13 Hypothetically speaking, if you had a
14 stock in Microsoft that didn't pay out a dividend,
15 would the growth model predict that the payments of
16 dividends by Microsoft inevitably would lead to a
17 decrease in its growth rate?

18 A. Well, according to the sustainable growth
19 model, if a company went from a 100 percent
20 retention ratio to something less than that, then,
21 yes, the growth would decrease.

22 Q. Is it possible for a company to recapture

1 dividends paid out in order to fund reinvestment;
2 for example, a DRIP program?

3 MR. FEELEY: Do you want to define recapture?

4 MS. MOORE: I'm sorry. It's a dividend
5 reinvestment program, so, for example, as a
6 stockholder, instead of getting your dividends, you
7 can pay it back to go towards purchasing more stock?

8 A. Yes.

9 Q. Would you agree that a company's growth rate is
10 a function of its investment opportunities?

11 A. Yes.

12 Q. Would you also agree that a company's growth
13 rate is a function of its ability to exploit those
14 opportunities?

15 A. Yes.

16 Q. So a company would be able to exploit
17 opportunities as opposed to having a company
18 arrange its -- let me strike that.

19 Is it possible that the growth model that
20 you are endorsing may have the cause and effect
21 reversed? More specifically, the companies with
22 limited growth opportunities tend to pay out a

1 higher proportion of their earnings as dividends as
2 opposed to a high dividend payout ratio condemning
3 the company to a low growth rate?

4 A. Could you repeat the question again, please?

5 Q. Yes.

6 Is it possible that the growth model you
7 are endorsing may have reversed the cause and
8 effect? The cause and effect being that you have
9 companies with limited growth opportunities which
10 tend to pay out a higher proportion of their
11 earnings as dividends. There's your cause, and it's
12 affecting -- as opposed to a high dividend payout
13 ratio which would condemn the company to a low
14 growth rate.

15 I'm sorry. I asked you before if the
16 sustainable growth model would increase the dividend
17 payout ratio and if that would lead to a decrease in
18 growth, and you said yes.

19 So the cause there would be a high
20 dividend which would lead to a decrease in growth?

21 A. Right.

22 Q. So what I mean is, by reversing it, would you

1 agree that companies with limited growth
2 opportunities tend to pay out a higher proportion of
3 earnings as dividends as opposed to a high dividend
4 payout ratio condemning the company to a low growth
5 rate?

6 A. I'm confused by the question I guess because in
7 my mind, you're saying the same thing. A company
8 has limited growth and pays out more dividends
9 versus a company that pays out high dividends and
10 has low growth. What's the difference in those
11 scenarios?

12 Q. Okay. My question then is... Let's try it
13 this way.

14 So it's your testimony, I mean, what you
15 just said there was that high dividends lead to low
16 growth? A high dividend payout can lead to low
17 growth?

18 A. In terms of the sustainable growth model.

19 Q. So a high dividend would cause low growth in
20 your model, a high dividend payout?

21 A. Not necessarily, depending on what the expected
22 return on equity was which is the other part of the

1 equation.

2 If a dividend is increased, thereby
3 increasing the payout ratio, then growth would
4 decrease according to the sustainable growth model.

5 Q. But isn't it possible...

6 So that's in theory, and that's what your
7 model specifically is limited to measuring? It
8 would be that a high dividend payout can lead to low
9 growth?

10 A. According to this model relative to a low
11 payout ratio.

12 Q. We're almost done.

13 Going back to your proxy models --

14 A. In my direct testimony?

15 Q. Yes.

16 In those proxy models, you limit it to
17 just strictly utilities, correct?

18 A. Yes. My samples were comprised of utility
19 companies.

20 Q. Are you aware of any limitations that investors
21 would have to purchase stock solely, just purchase
22 only utility stock?

1 A. A restriction on an investor?

2 Q. Yes. Are they limited?

3 A. No.

4 Q. They're not limited?

5 A. No.

6 Q. So an investor has a choice in choosing a stock
7 of a utility or a stock of a non-utility?

8 A. Certainly.

9 Q. And you would agree when an investor is
10 considering investing in common equity in Wisconsin
11 Power and Light, that investor isn't limited to the
12 companies in your sample group?

13 A. Correct.

14 Q. So then is it your testimony that the two
15 models that you used are sufficient to accurately
16 reflect what investors require on the return on
17 equity in WPL despite the limitations to your proxy
18 models?

19 A. Yes. The use of the DCF and CAPM models in
20 determining the investor-required rate of return
21 have consistently been accepted by this Commission
22 in establishing the cost of equity.

1 Q. Now I'm confused.

2 Is it your testimony the Commission has
3 accepted the limitation of the proxy group or is it
4 your testimony that these two models are
5 sufficiently accurate to reflect what investors
6 require for a return on equity on Wisconsin Power
7 and Light?

8 A. That is my testimony. My estimate of the
9 investor-required rate of return contained in my
10 direct testimony was derived from the DCF and CAPM
11 models only, yes.

12 Q. And those same proxies should reflect the risk
13 of the company?

14 For example, we went into a long
15 discussion about business profile.

16 A. Uh-huh.

17 Q. So those business profiles... And that
18 assesses some portion of the risk, correct?

19 A. Yes.

20 Q. And the proxies that you choose should reflect
21 the risk of the company?

22 MR. FEELEY: Point of clarification.

1 When you say company, you mean South
2 Beloit Water, Gas and Electric?

3 MS. MOORE: Correct.

4 Q. The proxy group should reflect the business
5 risk of the company South Beloit Water, Gas and
6 Electric?

7 A. Yes.

8 Q. Yet the business profiles that you selected in
9 your proxy groups are business profiles of 3,
10 correct?

11 A. Yes.

12 Q. Did you make an upward adjustment to correct
13 the difference between the business profiles between
14 WPL and your proxy group?

15 A. I did not as explained in my rebuttal testimony
16 on Pages 7 and 8.

17 Q. Let's go into that.

18 But in your testimony, you are not talking
19 about a business profile, are you? You're talking
20 about the appropriate yield spread between an AA and
21 an A-. You're not talking about the business
22 profile difference. We're talking about a credit

1 rating, correct?

2 A. Correct.

3 Q. So it's still correct that you didn't make an
4 adjustment for the business profile discrepancy
5 between a 3 and a 4?

6 A. Correct.

7 Q. Now, in the Standard & Poor's rating, how is
8 that done? What does 1 mean compared to 5? You
9 know, isn't it true that -- well, I'll let you
10 explain that.

11 A. The business profiles are from 1 to 10 with 1
12 being considered the lowest risk and 10 the highest
13 risk.

14 Q. So a 4 is riskier than a 3?

15 A. Correct.

16 Q. And your model doesn't account for that
17 increased risk?

18 A. It does not.

19 MS. MOORE: Your Honor, I have no further
20 questions.

21 JUDGE JONES: Does staff have any redirect?

22 MR. FEELEY: If possible, can we take a short

1 break?

2 JUDGE JONES: That's fine. How long do you
3 propose?

4 MR. FEELEY: About ten minutes.

5 JUDGE JONES: We hereby break for ten minutes.

6 (Recess taken)

7 JUDGE JONES: Let's go ahead and resume.

8 Mr. Feeley, is there any redirect?

9 MR. FEELEY: Yes, very limited.

10 REDIRECT EXAMINATION

11 BY MR. FEELEY:

12 Q. Ms. Freetly, near the end of your
13 cross-examination, you were asked about the business
14 profile or position of WPL, and you indicated that
15 it was a profile of 4, is that correct?

16 A. Yes.

17 Q. And what was the business profile for your
18 sample?

19 A. Well, the three samples that I used had average
20 business profiles of 3.

21 Q. And why did you not make an adjustment to your
22 cost of equity for that difference in the business

1 profiles?

2 A. Well, WPL's business profile score of 4 is
3 reflective of its operations as an integrated
4 utility. It has water, gas, and integrated electric
5 utility operations, so that is all reflected in the
6 business profile score of 4.

7 However, in this case, I'm trying to
8 estimate the appropriate cost of equity for the gas
9 operations and the water operations of South Beloit
10 Water, Gas and Electric, and as indicated by my
11 samples, gas utilities have an average business
12 profile of 3 as do water utilities; therefore, to be
13 more reflective of the appropriate cost of equity
14 for the gas and water operations respectively, I
15 relied on samples with business profiles of 3.

16 MR. FEELEY: That's all I have.

17 JUDGE JONES: Is there any recross?

18 MS. MOORE: Yes, Your Honor, there is.

19 RECROSS-EXAMINATION

20 BY MS. MOORE:

21 Q. When I asked you before about the business
22 profile of Wisconsin Power and Light, I asked you if

1 it was a stand-alone business profile and you
2 answered yes.

3 Is that still your testimony?

4 A. Yes, it's stand-alone for WPL, but WPL as a
5 utility has water, gas and electric utility
6 operations.

7 Q. Well, off the top of your head, do you know of
8 any integrated utilities that have a score of 3 or
9 better?

10 A. No.

11 Q. Do you know what the business profile for
12 Alliant Energy is?

13 A. Alliant Energy's business profile is 5.

14 Q. Which is higher than Wisconsin Power and Light?

15 A. Yes.

16 Q. And, I'm sorry, in your response to
17 Mr. Feeley's question about the business profile,
18 did I misunderstand that? Did you relate it to the
19 Alliant Energy nonregulatory risks as well?
20 When you answered me, did I misunderstand you?

21 A. Yes. I was referring to the business of WPL.

22 Q. And it's an integrated utility because it has

1 gas and electric?

2 A. No. It's an integrated electric utility in
3 then it has generation and transmission and
4 distribution operations.

5 Q. As well as gas operations?

6 A. South Beloit has gas and water operations.

7 Q. But you're basing the business profile on
8 Wisconsin Power and Light, correct?

9 A. Yes. South Beloit does not have a business
10 profile score.

11 Q. So you based it on Wisconsin Power and Light?

12 A. Correct.

13 Q. And so, in essence, is it your testimony then
14 that the business profile won't change if you
15 isolated it to stand-alone gas?

16 A. Yes, it would change. It would be lower as
17 reflected by my gas sample.

18 Q. But you're basing that on your own opinion and
19 not the opinion of Standard & Poor's, correct?

20 A. Well, the average business profile of my sample
21 is the average of those sample companies assigned by
22 Standard & Poor's.

1 Q. And those are pure -- let me try and clarify it
2 this way.

3 Of your proxy group, they're pure samples
4 of gas utilities?

5 A. Their primary business is gas, and I'm using
6 the sample in an attempt to estimate the cost of
7 equity for the gas operations of South Beloit Water,
8 Gas and Electric.

9 Q. But in your proxy sample, Standard & Poor's
10 does not distinguish between a utility's gas
11 operations and an electric operation, is that
12 correct?

13 A. Correct.

14 Q. So in your sample, you're trying to focus only
15 on the risks of a gas operation, the operating risks
16 of a gas operation?

17 A. Yes. The first criteria in collecting samples
18 for my gas sample was that they were gas utilities
19 in the Standard & Poor's utility Compustat system.

20 Q. Let me just try to figure out what you're
21 doing here.

22 Are you saying, is it your testimony that

1 in the Standard & Poor's business profile of
2 Wisconsin Power and Light that if Wisconsin Power
3 and Light wasn't an integrated utility, it didn't
4 service both electric and gas and it serviced just
5 gas alone, is it your testimony that the Standard &
6 Poor's business rating would then be a 3?

7 A. It may be different than 4, yes.

8 Q. And conversely, it could also be a 5?

9 A. It could, but the business profile scores
10 indicate that gas utilities on average are 3.

11 Q. And this downward adjustment that you're making
12 based on your proxy sample being just a 3 for gas
13 companies --

14 MR. FEELEY: I'm going to object. I think
15 that's a mischaracterization of her testimony, that
16 there's some type of downward adjustment.

17 MS. MOORE: I suppose I can rephrase the
18 question.

19 Q. All right. In your judgment, you believe it's
20 appropriate to measure Wisconsin Power and Light on
21 a business profile of 3 despite the fact that
22 Standard & Poor's has rated it a 4?

1 A. Since my concern is with the gas operations of
2 Wisconsin Power and Light, I feel a 3 is more
3 reflective of the business profile of a gas utility,
4 gas only utility.

5 Q. However, in your gas utility sample though,
6 there were some companies with a business profile of
7 4 though, were there not?

8 A. Yes.

9 Q. So Peoples Energy also is a gas utility with a
10 Standard & Poor's rating of 4, correct?

11 A. Yes.

12 Q. And so is Atmos Energy Corporation?

13 A. Yes.

14 There are also some 2s.

15 The average of the sample and the average
16 for gas utilities in general is 3.

17 MS. MOORE: I have no further questions.

18 JUDGE JONES: Is there any re-redirect?

19 MR. FEELEY: No redirect.

20 JUDGE JONES: That concludes the questions for
21 Ms. Freetly. Thank you.

22 (Witness excused)

1 JUDGE JONES: It looks like there's one name
2 left on the list.

3 MR. FEELEY: At this time, staff would call
4 Thomas Q. Smith.

5 (Whereupon the witness was sworn by
6 Judge Jones.)

7 JUDGE JONES: Thank you. Please be seated.

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THOMAS Q. SMITH

15 called as a witness herein, on behalf of staff of
16 the Illinois Commerce Commission, having been first
17 duly sworn on his oath, was examined and testified
18 as follows:

19

DIRECT EXAMINATION

20

BY MR. FEELEY:

21

Q. Could you please state your name for the

22

record?

1 A. Thomas Q. Smith.

2 Q. And by whom are you employed?

3 A. The Illinois Commerce Commission, Water
4 Department.

5 Q. Mr. Smith, do you have in front of you two
6 documents, the first which has been marked for
7 identification as ICC Staff Exhibit 3.0 entitled the
8 Direct Testimony of Thomas Q. Smith?

9 A. Yes, I have that.

10 Q. And that consists of 13 pages of narrative text
11 and attached schedules?

12 A. That is correct.

13 Q. And do you have a second document in front of
14 you that has been marked for identification as ICC
15 Staff Exhibit 9.0, "Rebuttal Testimony of Thomas Q.
16 Smith" which consists of 19 pages of narrative text?

17 A. Yes, I have that.

18 Q. Was ICC Staff Exhibit 3.0 and the attached
19 schedules and ICC Staff Exhibit 9.0 prepared by you
20 or under your direction, supervision, and control?

21 A. Yes, they were.

22 Q. Do you have any additions, deletions or

1 modifications to make to ICC staff Exhibit 3.0 and
2 9.0?

3 A. No, I do not.

4 Q. If I were to ask you today the same series of
5 questions set forth in ICC Staff Exhibit 3.0 and
6 9.0, would your answers be the same as set forth in
7 those documents?

8 A. Yes, they would be.

9 MR. FEELEY: Your Honor, at this time, I'd move
10 to admit into evidence two documents, the first
11 being ICC Staff Exhibit 3.0 entitled "Direct
12 Testimony of Thomas Q. Smith" along with the
13 attached schedules, and ICC Staff Exhibit 9.0, the
14 rebuttal testimony of Thomas Q. Smith which consists
15 of narrative text.

16 JUDGE JONES: Are there any objections?

17 MS. MOORE: No, Your Honor.

18 JUDGE JONES: Let the record show those
19 exhibits are admitted.

20 More specifically, ICC Staff Exhibit 3.0
21 including Schedules 3.1 through 3.3 are admitted
22 into the record as filed electronically on March 10,

1 2004.

2 Also, ICC Staff Exhibit 9.0 filed
3 electronically on April 28, 2004 is admitted into
4 the record as it appears on e-docket.

5 (Whereupon ICC Staff Exhibits 3.0
6 and 9.0 were admitted into evidence
7 at this time.)

8 JUDGE JONES: The witness is tendered for
9 cross, is that correct?

10 MR. FEELEY: Yes. Mr. Smith is available for
11 cross-examination.

12 JUDGE JONES: Ms. Moore, do you still have
13 questions for Mr. Smith?

14 MS. MOORE: Yes, Your Honor, I do.

15 Good afternoon, Mr. Smith. I understand
16 that I am the only thing that's keeping us from
17 adjourning this hearing, so I will try to make your
18 line of questioning really brief.

19 CROSS-EXAMINATION

20 BY MS. MOORE:

21 Q. In your direct testimony, and I'll just
22 separate this into two categories. We'll go over

1 the water tariffs real quick.

2 On Page 3 on Line 52, you state prior to
3 2003, South Beloit obtained its water supplies under
4 contract from its parents, Wisconsin Power and
5 Light.

6 Is Wisconsin Power and Light a Wisconsin
7 utility regulated by the State of Wisconsin?

8 A. It's my understanding that they are regulated
9 by the State of Wisconsin.

10 Whether or not any other states would
11 regulate them or any other agencies, I don't know.

12 Q. And who would regulate Wisconsin Power and
13 Light's rates?

14 A. I assume you're referring to the Public Service
15 Commission of Wisconsin?

16 Q. Yes, I am.

17 And so it's your understanding that the
18 Public Service Commission of Wisconsin is the one
19 who regulates Wisconsin Power and Light's rates?

20 A. That's my understanding, yes.

21 Q. Okay. On Page 4 there, you talk about the
22 public, what's called the PSCW.

You state that the PSCW is an agency of the sovereign state of Wisconsin, and then you go on to state that its interest is to protect the well-being of Wisconsin's public including humans and corporations and to assist other Wisconsin government divisions such as the City of Beloit.

What do you mean by assist? What is the basis of your statement here?

A. My statement is an acknowledgement or a recognition that cities are subparts of states and that the interest of agencies of the state would be entities within the state including the City of Beloit.

Q. So it would fall under the PSCW'S jurisdiction?

A. No. I don't intend to say that although it is my understanding that the Wisconsin Commission does regulate water rates charged by Beloit.

My statement was intended to be more broad than that in that as an agency or an arm of the state, it would have an interest in the well-being of the City of Beloit relative to entities that exist outside of the State of Wisconsin.

1 Q. Conversely, wouldn't the PSCW also have an
2 interest in the rates that the City of Beloit pays,
3 the ratepayers pay?

4 A. Yes, yes, I intended that that be part of their
5 overall interest. I believe they do indeed
6 regulate, the Wisconsin Public Service Commission
7 does indeed regulate the rates of the City of
8 Beloit.

9 Q. And then would you agree with me that the PSCW
10 is responsible for setting reasonable and just
11 rates?

12 A. I assume that that is part of their
13 responsibility. I don't have a document that I can
14 point to where I can definitively state that, but I
15 would assume that's their responsibility, yes.

16 Q. Going to Page 10 there of your direct
17 testimony, if I could direct your attention to Line
18 198 where you say adjustment to remove the cost of
19 shared savings, and then you go on to describe what
20 shared savings is there on Line 205, and then on
21 Line 208, you state, in this program, the company
22 buys the equipment for the customer.

1 Is this your understanding of how shared
2 savings program works -- that the company buys
3 equipment for the customer?

4 A. More broadly, whether this is specifically how
5 it occurs, my point is that it's my understanding
6 the company identifies the appropriate equipment
7 that the participant in the savings plan needs to
8 buy and that it points them to... I don't know
9 specifically how it works, but it's my understanding
10 the company does provide the initial cash and that
11 the participant reimburses the company. That's my
12 understanding.

13 Q. All right. Moving on to your rebuttal
14 testimony, on Page 5, Line 83, you explain some
15 ratemaking principles, and you say the Commission's
16 responsibility is... Let me read the whole sentence
17 in context.

18 A. Can I stop you?

19 Q. Yes.

20 A. I'm not where you are.

21 Q. I'm sorry. In your rebuttal testimony on Page
22 5, I was directing your attention to Line 83, but I

1 am going to read this in context, that first
2 sentence beginning on Line 82 where you state,
3 "Whether society and nonparticipating customers
4 benefit from shared savings program is equally
5 irrelevant because the Commission's responsibility
6 is to weigh the interests of the utility owners
7 against the interest of the customer and to
8 determine the appropriate revenue requirement for
9 the operating utility.

10 Is it your testimony that the Commission
11 is setting a revenue requirement or rates?

12 I guess, could you elaborate? What do you
13 base this statement on?

14 A. The Commission in this docket will determine
15 the appropriate revenue requirement or total cost of
16 service if you will for South Beloit, specifically
17 at this point for the gas operations, and then it
18 will authorize appropriate rates that will recover
19 the revenue requirement that it sets.

20 Q. Okay. So it's your testimony that the
21 Commission is responsible to weigh the interests of
22 the utility owners against the interest of utility

1 customers when determining rates for a company?

2 Would that be a fair characterization of your

3 testimony?

4 A. Yes. That characterizes that particular point,

5 yes.

6 Q. And you do also agree with me that the

7 Commission is responsible for setting just and

8 reasonable rates?

9 A. That's my understanding, yes.

10 Q. All right. On Page 10, you talk about

11 Commission policies. You have a question there on

12 Line 184: "On Page 3 of her rebuttal testimony,

13 Ms. Osterholz argues that the shared savings program

14 is consistent with Commission policy, especially

15 those policies which emphasize demand side

16 management. Are you in agreement?"

17 Is it your testimony that you do not agree

18 with Commission policy to encourage demand side

19 management?

20 A. Well, this is a general reference to demand

21 side management policies. Can I have the question

22 read back or can you reask it, whichever.

1 Q. Yes.

2 You ask the question, "Are you in
3 agreement?" And you're referring to a shared
4 savings program being consistent with Commission
5 policy, especially those policies which emphasize
6 demand side management.

7 So I'm asking you, based on that question,
8 is it your testimony that you do not agree it is
9 Commission policy to encourage demand side
10 management?

11 A. I'm having trouble with kind of the double
12 negative or what I perceived as a double negative.

13 Can you rephrase it in a more direct
14 manner?

15 Q. Yeah, let me phrase it this way.

16 Do you agree that the shared savings
17 program is consistent with Commission policy,
18 especially those policies which emphasize demand
19 side management?

20 A. There's no specific policy referenced, so in
21 some respects, the savings sharing program is
22 probably consistent with demand side management

1 policies as a general statement.

2 Q. But you also go on to say that it's also
3 Commission policy that participants -- let me boil
4 this down.

5 Basically, I think what you're saying is
6 that it's also Commission policy that a group of
7 customers should not be required to subsidize
8 another group of customers.

9 A. Yeah. That's one way of stating it. I think
10 it's a matter that the causers of a particular cost
11 should be responsible for paying that cost. I think
12 that's another way of saying it.

13 Q. Okay. Based on that statement of policy, if
14 you have a gas distribution system and you need to
15 expand it to serve increased gas volume, is it your
16 testimony that customers needing the increased gas
17 load should pay for the expense of the system
18 expansion?

19 A. Well, yeah. Again, as a general statement,
20 it's generally expected that the growth of a system
21 or the growth of infrastructure in a system would be
22 paid for by the people who are served by that

1 infrastructure.

2 Q. Even though they may not be the ones who caused
3 the demand in gas to increase?

4 A. Yeah. If the infrastructure is built to serve
5 particular customers, I have trouble accepting that
6 those customers would not be responsible for
7 increased demand.

8 I mean, almost by definition, the demand
9 is caused by additional customer growth, and the
10 growth in customers would, of necessity, require a
11 growth in demand or cause a growth in demand.

12 Q. Let me think about what you just said.

13 So in that scenario it would be okay for
14 those customers who did not cause the growth to pay
15 for that new expansion?

16 A. Maybe we have to stop and start all over
17 again. I guess expansions -- I was envisioning
18 expansion in the sense of new infrastructure. I
19 think you're maybe talking about something else.

20 Q. But you would agree that if gas volume
21 increases, you have a certain pipe size to support
22 that volume and your volume increases, the main

1 distribution that would serve all customers, you may
2 have to increase the pipe size so it can support
3 that amount of volume, and you would also agree that
4 the, I guess what we'd call the old customers on
5 that system, even though they didn't increase their
6 usage, you know, the new customers that have been
7 added to the system, and we'll just take the main
8 distribution pipe, you know, if that has to be
9 rebuilt, is it fair for those old customers to pay
10 for that expansion and that increased size, you
11 know, when they're not the ones creating the new
12 demand with these new customers?

13 A. I don't think I can sit here and answer that
14 directly because I think there are many other
15 factors involved. The type of customer or
16 customers, the number of customer or customers that
17 are increasing the size of the pipe I think would
18 play a factor in that decision or recommendation.

19 Q. And when you say other factors, do you
20 mean -- I guess I'm talking about the main
21 infrastructure that serves all, not the individual
22 pipe that would go to a residential house or a new

1 industry, not, as they say in telecom, the last
2 mile.

3 To import the gas, you have a system, a
4 pipe that would only hold so much volume, and you've
5 increased your volume so much that in order to meet
6 that new demand or that new growth, you're going to
7 have to put in a new distribution system that will
8 get it out to the rest of the system to the last
9 mile let's say, and that new growth was caused by
10 increased use by some customers but a lower, you
11 know, use by others.

12 Let's just say on that system you don't
13 have customers who have contributed to that growth.
14 Their usage has remained constant.

15 Is it fair for those customers to pay for
16 that main distribution?

17 MR. FEELEY: Objection. She already asked this
18 question, and I think he said he wasn't able to give
19 her an answer here today; that there are other
20 factors he'd have to consider.

21 Q. Would you agree that all customers pay for main
22 extensions?

1 A. All new customers or -- you know, I'm just
2 trying to understand.

3 Q. New and old customers together would pay for
4 any main extension.

5 MR. FEELEY: A point of clarification. Is this
6 for gas or gas and water or just water?

7 MS. MOORE: It would be for gas.

8 A. It's my understanding that normally, a
9 certain --

10 Q. For example, a hypothetical gas company comes
11 to you and says, on our main distribution line that
12 we hook up to the main intrastate line to import our
13 gas in, we have had to do some pipe replacement on
14 that, and in that pipe replacement, we've increased
15 the size so we can import more gas to serve our
16 load, and they say, you know, that's \$25,000 of
17 work. We're asking to spread it across that cost,
18 across the customer base.

19 Would you find that to be an
20 appropriate expense allocated to each customer
21 class?

22 A. I think it would depend upon various factors,

1 and I guess, to use an extreme example perhaps, if
2 the size of the pipe had to be increased because of
3 a new industrial customer that was picking up ten
4 percent of the load or increasing the load ten
5 percent, that would be a very different situation
6 than if it were to increase the size of a pipe that
7 went through primarily an industrial area and then
8 at the end of that, a small subdivision were put
9 onto the end of that main at that place.

10 I don't think I could sit here and say
11 what's proper without knowing or what's appropriate
12 without knowing the specific circumstances and
13 looking at it within the context of the entire rate
14 case if you will or the ratemaking process.

15 MS. MOORE: Fair enough.

16 I have no further questions.

17 JUDGE JONES: Does staff have any redirect?

18 MR. FEELEY: Staff has no redirect.

19 CROSS-EXAMINATION

20 BY JUDGE JONES:

21 Q. Mr. Smith, could you refer to your direct
22 testimony, Schedule 3.3 Gas, please?

1 A. Yes.

2 Q. Now, there are three columns there, direct
3 cost, WPL allocation and total, is that correct?

4 A. That's correct.

5 Q. And the total so-called expense adjustment
6 would be 134,887, is that correct?

7 A. Yes.

8 Q. And is that the same number that appears in
9 Ms. Pearce's Exhibit 1.0, Schedule 1.1 Gas?

10 A. I would expect that it is. At one time I knew
11 for sure. If it isn't, there's a problem.

12 Q. That reduces customer service and info expenses
13 by that amount, is that correct?

14 A. That is correct, yes.

15 Q. Is it your understanding that the direct cost
16 component is the ratable or one-third portion of the
17 total of approximately \$270,000 that the company
18 provided?

19 A. That's correct, yes.

20 Q. Now, the 44,204, you indicate that that was
21 obtained by means of a response to a staff DR, is
22 that right? I'm looking again at Schedule 3.3.

1 A. Yes, that's correct.

2 Q. Do you know whether or not the 44204 is a
3 one-third portion of some larger figure as well?

4 A. Okay. According to that response, the response
5 to BCJ-401, the total amount of shared savings
6 included in the DSM amortizations for 2002 is
7 9,213,771.

8 Of this total, 1,101,432 is related to gas
9 of which 4.01334 percent or \$44,204 is allocated to
10 South Beloit Water, Gas and Electric.

11 The use of the term DSM amortizations for
12 2002 indicates to me that indeed it is an
13 amortization of a larger amount?

14 Q. I realize this was the company's allocation
15 and not yours, but does that response indicate why
16 some allocation of WPL cost was made?

17 A. No, it doesn't appear to address why. No, I
18 don't see a specific explanation of why an amount
19 was allocated from WPL.

20 Q. In any event, at least according to your
21 review, there was a total of 134,887 in the
22 company's pro forma expenses, and you are proposing

1 to remove it, is that correct?

2 A. That's correct, yes.

3 Q. Now, just assuming for the moment that the
4 Commission were to decide that some recovery by the
5 company here of these costs is appropriate and
6 further, that some amortization period be used, do
7 you have any opinion as to what an appropriate
8 amortization period would be for that purpose?

9 A. No. I wouldn't have a basis for making a
10 recommendation on the proper amortization period.

11 Q. Now, with respect to the shared saving expense
12 that the company is seeking to recover through its
13 pro forma expenses in this case, do you know how
14 many shared saving contracts that involves based on
15 your review?

16 A. Well, yeah, generally based on my review plus
17 some testimony by the company today, I think it's
18 roughly 14 contracts.

19 JUDGE JONES: That's all the questions that I
20 have for Mr. Smith.

21 Is there any follow-up direct or follow-up
22 questions from the company for that matter?

1 MR. FEELEY: Staff has no follow-up questions.

2 MS. MOORE: Neither does the company, Your
3 Honor.

4 JUDGE JONES: Thank you, sir.

5 (Witness excused.)

6 Off the record regarding the post hearing
7 scheduling, etc.

8 (Whereupon an off-the-record
9 discussion transpired at this
10 time.)

11 JUDGE JONES: Back on the record. There was an
12 off-the-record discussion for the purposes
13 indicated.

14 As the parties are aware, there is already
15 a briefing schedule in place established on a prior
16 date. That will be left intact.

17 There was some discussion regarding
18 submission by the company of a draft order, and the
19 date for that would be not later than seven days
20 after the initial brief so as to provide staff an
21 opportunity to review that and respond as
22 appropriate on the reply brief date as part of that

1 staff reply brief or otherwise.

2 Also, I believe the parties are agreeable
3 to using a table of contents in their briefs. I
4 believe the parties believe page limits are not
5 necessary in this case.

6 I would just note, once I sort of finish
7 reading through these things, we'll see if the
8 parties have any comments about that.

9 As the parties are aware, citations to the
10 record, be it the exhibits or the transcripts, are
11 to be used as described in the Rules of Practice.

12 There's also some discussion about what to
13 do about orders that are cited in these briefs.
14 Court decisions are readily available by other
15 means. The question arises on state Commission
16 decisions that are not available on the Web.

17 For the most part, the older Commission
18 decisions are available. However, there are some
19 that are not, so I believe the parties are agreeable
20 to furnishing with their briefs copies of the cited
21 decisions in those situations where those orders are
22 not otherwise available on the Web, so let me sort

1 of stop there for a minute.

2 Are there any points of clarification or
3 correction with regard to any of these post-hearing
4 procedural things?

5 There are some other post-hearing filings
6 headed this way, one being the certificate or
7 certificates of publication. Those will be filed
8 within two weeks of today's date.

9 If for some reason they are not available
10 at that time, then further time may be requested.

11 There were some other late filed exhibits
12 to be submitted. The default period for submitting
13 late filed exhibits will be seven days from today's
14 date, so that would be the time line unless
15 otherwise stated.

16 I think that might fairly well cover the
17 post-hearing filing procedures.

18 Are there any points of clarification with
19 regard to any of that?

20 MS. MOORE: No, Your Honor.

21 MR. FEELEY: Nothing for staff.

22 JUDGE JONES: Any objections to the use of

1 those procedures?

2 MS. MOORE: No, Your Honor.

3 MR. FEELEY: No.

4 JUDGE JONES: All right. So those procedures
5 will be applicable.

6 As noted, the main scheduling being the
7 initial briefs and reply briefs were established in
8 the schedule some time back by the parties.

9 Anything else then before we mark this
10 matter heard and taken?

11 Okay. At this time, let the record show
12 that this hearing today is concluded. Our thanks to
13 the parties for their participation and cooperation
14 in this proceeding.

15 This matter is hereby marked heard and
16 taken.

17 HEARD AND TAKEN

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